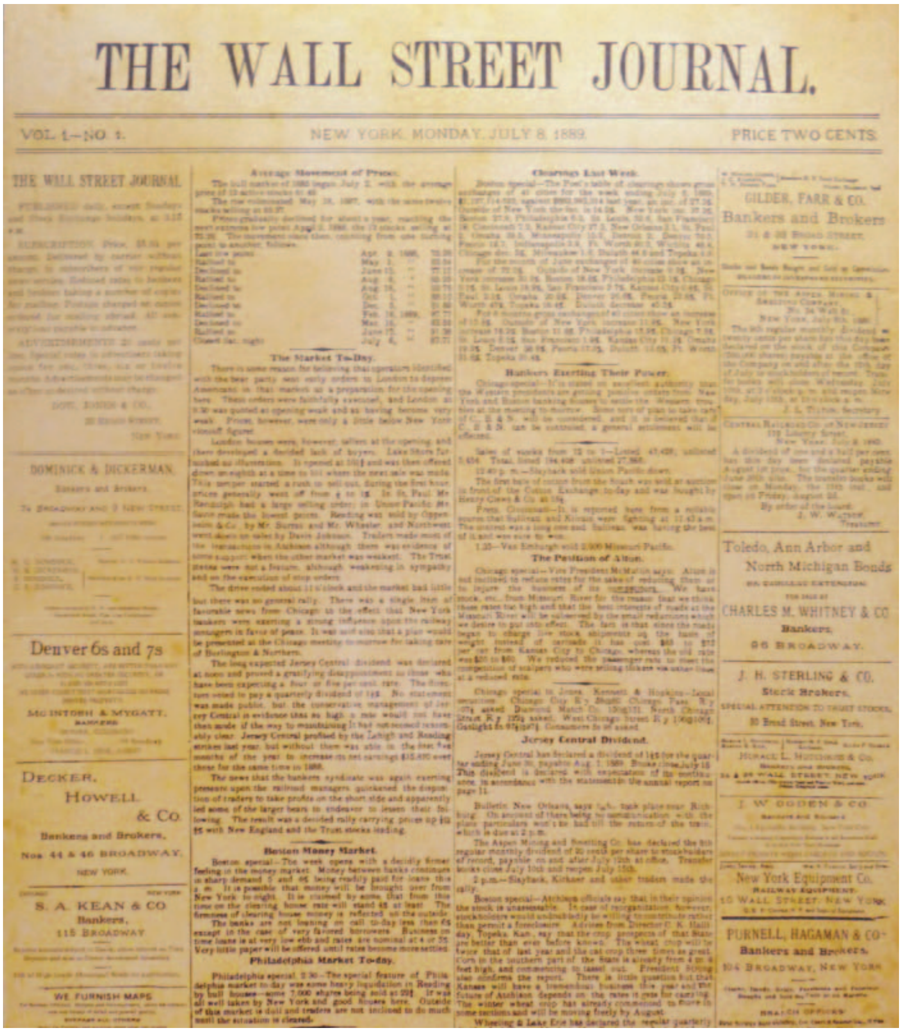
Financial History

The magazine of the Museum of American Finance



THE WALL STREET JOURNAL.

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125 Years of The Wall Street Journal

Frank Vanderlip and the Founding of the Fed

Woodhull, Claflin and Women's Rights on Wall Street

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FINANCIAL HISTORY

The magazine of the Museum of American Finance

in association with the Smithsonian Institution

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ON THE COVER

The front page of the first edition of *The Wall Street Journal*, published on July 8, 1889. A copy of this issue is on display in the Museum's "Financial Markets" exhibition.
See article, page 20.


THE WALL STREET JOURNAL.

Courtesy of Kenneth Winans

2014 Initiatives Include Wall Street Genealogy and Re-Launch of Money Exhibit

Message to Members

David J. Cowen | President and CEO

One of the most exciting developments at the Museum this past year is that our Board has been rapidly expanding. Under Dick Sylla's leadership as chairman, the Board has grown to 29 members. Since September, seven new trustees have joined the Board: Alvi Abuaf, Randy Del Franco, Adam Goldstein, Martha Clark Goss, Bob Hotz, Joe Mecane and Susan Stupin. These recent additions have infused the Board with new ideas and energy, and we welcome their involvement. This expansion underscores that while we are in our 27th year with a proud track record of preserving, exhibiting and teaching about the nation's finances and financial history, we are still young and developing. These trustees will assist in all aspects of our mission, and in the critical area of development. Our appreciation goes out to the Nominating Committee of the Board, led by Andrea de Cholnoky, as the positive results the committee has achieved are self-evident.

The Museum is currently in the process of our biggest research project to date. With a generous grant from Chuck Royce of the Royce Funds, we are in the midst of a genealogy of Wall Street project for the 50 largest US banks. In some cases, these family trees are highly-complex, and in many cases they have never been done before. While it may be surprising that neither the Federal Reserve nor the Office of the Comptroller of the Currency has ever produced a comprehensive genealogy of American banks, we will be happy to share this data when the project is complete. There will likely be several outputs from this project, both in print and online, and the first will be a beautifully-illustrated book published by Columbia University Press later this year. Our deputy director, Kristin Aguilera, is managing the project, and noted financial historian Robert Wright is the primary researcher and author.

We are also working to re-launch our "Money: A History" exhibit. Two of our currency consultants, Mark Anderson and Mark Tomasko, are assisting us in curating this gallery, and they bring tremendous expertise on the subject. We look forward to telling the story of America through the lens of currency, and we will exhibit items from our own collection, as well as rare and stunning examples borrowed from a variety of other sources. Look for the re-launch of this exhibit later this year.

Lastly, Dick Sylla and I have concluded our service on the Federal Reserve Centennial Advisory Council. The group met in December for a final time, and we were both proud to represent the Museum on this select committee. $

Eugene White, co-curator of the Museum's "Fed at 100" exhibit; Museum President David Cowen; Recent Federal Reserve Chairman Ben Bernanke; and Museum Chairman Dick Sylla at the last meeting of the Federal Reserve Centennial Advisory Council.

JAN 7 1793 The US Mint becomes a significant enough institution to hire its first security staffer, a watchdog named Nero, which it buys for $3.

JAN 9 1790 Treasury Secretary Alexander Hamilton submits to Congress his "Report on the Public Credit," which proposes buying up distressed bonds to consolidate the national debt.

Museum Honors Duncan Niederauer With Whitehead Award at 2014 Gala

On January 14, the Museum honored Duncan Niederauer, CEO of the New York Stock Exchange, with the 2014 Whitehead Award for Distinguished Public Service and Financial Leadership. The award is presented at the Museum's annual gala to a person who has demonstrated a high order of achievement and leadership in the field of finance, and also served with notable distinction in the public sector. It is named after John C. Whitehead, former Deputy Secretary of State and co-chair of Goldman Sachs who has headed numerous public service organizations.

"Duncan exemplifies the spirit of the Whitehead Award. In addition to his many professional accomplishments, he has demonstrated a life-long commitment to philanthropy and community service," said David Cowen, president and CEO of the Museum. "We have been incredibly fortunate to have Duncan and NYSE Euronext as steadfast supporters and friends, and we are honored to recognize Duncan with our highest award."

Prior to his current position, Niederauer was president and co-chief operating officer of NYSE Euronext with responsibility for US cash equities. Before joining NYSE Euronext in April 2007, he was managing director and co-head of the Equities Division Execution Services franchise at Goldman, Sachs & Co.

Niederauer has served on the boards of many non-profit and educational organizations, including on the Museum's advisory board. He and his wife, Alison, recently led the Newmark School's "Destination of Promise" campaign, which built a state-of-the-art school for children with autism and related disabilities in Scotch Plains, NJ.

As he accepted the Whitehead Award, Niederauer preached humility to the financial executives and bankers in attendance. "Be humble," he said. "Keep your roots and your family and friends close." $

Photos: Elsa Ruiz

1. Duncan and Alison Niederauer with John and Cynthia Whitehead and David Cowen. **2.** More than 250 people attended the gala on January 14. **3.** Trustee Myron Kandel, gala co-chair Dan Lufkin, Harold Ehrlich and Ambassador William vanden Heuvel. **4.** Honoree Duncan Niederauer delivers remarks at the 2014 gala. **5.** Rosemary Lazenby of the Federal Reserve Bank of New York, Trustee Charles Wait and his wife, Candace, and former Trustee David Deutsch.

JAN 9 1935 This is the last day US $100,000 bills are printed. They were used for transactions between Federal Reserve Banks and were not circulated among the general public.

JAN 10 1870 John D. Rockefeller, Sr. founds the Standard Oil Company with $1 million in capital and a tenth of the nation's oil refining.

Museum Announces MFA Scholarship Recipients

The Museum is proud to announce that Karen Liu and Max Zhou have received the Museum Finance Academy (MFA)'s merit scholarships for the Fall 2013 semester. MFA is the Museum's eight-week financial literacy program for 11th and 12th graders that teaches students the basics of personal finance, including how to aspire to financial independence, develop an appreciation for savings, make financial goals and learn to avoid scams. Upon successful completion of the program, all students receive a certificate and the top student/s receive a scholarship.

Karen Liu

Max Zhou

Karen Liu is a 17-year-old senior at Stuyvesant High School. Her interest in finance began several years ago when she became inspired by her father, who is a businessman who owns his own company. She plans to apply to the business school where she hopes to earn a B.S. in Economics with a concentration in Finance. Upon graduation, she aspires to a career in either corporate finance or the stock market.

Max Zhou is a 17-year-old senior at Hunter College High School. His work experiences over the last two years include interning for an accountant, being a salesperson at a phone and technology shop and working as a human resources associate in a marketing firm. When Max is not working, he spends his time writing for his school newspaper and being a "Big Sib" at Hunter, helping younger students adjust to the transition from middle school to high school. He looks forward to further exploring business and discovering which areas he is truly passionate about when he goes to college.

MFA is offered for free on a first come, first served basis to students in the New York metropolitan area, thanks to generous support from ING. $

NYC Educators Learn to Teach Finance in Museum P-Credit Course

By Maura Ferguson,
Director of Exhibits and Education

With financial education at the core of its mission, the Museum is always looking for ways to help a greater number of individuals gain control of their financial futures. While there is a limit to the number of students that can be taught at the Museum in one day, there doesn't need to be a limit to the number of students that can be reached. One way to do that is by casting a wider net by teaching others to teach the Museum's message.

In the fall, the Museum launched "Making Sense of Dollars," a program designed to help high school educators understand and present finance-related subjects to their students. It is a credit-bearing course offered through the New York City Department of Education After School Professional Development Program. "Making Sense of Dollars" covers 10 topics in broad categories including history, biography, finance, economics and financial literacy over a period of six weeks.

The Museum's director of education, Chris Meyers, helps teachers understand these subjects, discover unique, engaging and high-quality sources and build confidence to present the material to their students. Throughout the course, educators identify and evaluate potential sources for classroom or student use and share their findings with the class through a designated blog. For the midterm and final projects, educators create and share lesson plans to use in their classrooms based on topics covered in class.

"Making Sense of Dollars" launched with 10 educators teaching a range of subjects and grades. The Museum expects to increase that number in the coming semester. It takes courage and some creativity to bring finance into the classroom, but with a little know-how, more educators can take on the challenge and help raise financial literacy. $

JAN 12 1906 The Dow Jones Industrial Average, a few months short of its 10th birthday, closes above 100 for the first time, finishing the day at 100.25.

JAN 25 1853 Basic financial disclosure becomes mandatory for all companies seeking to list their stock on the New York Stock & Exchange Board.

Volunteer Spotlight: Linda Eichler

While the faces of many of the Museum's volunteers are the first to greet visitors upon entering 48 Wall Street, other volunteers play less obvious but equally important roles. Such is the case with Linda Eichler, who volunteers weekly in the Museum's library.

After earning a BA in Sociology from Barnard College and a Master of Library Science (MLS) from Drexel University, Linda began a 30-year career as a business reference librarian at the Lippincott Library of the Wharton School of Business at the University of Pennsylvania. There, she answered questions at the reference desk, assisted in the development of an online business FAQ that was eventually adopted and customized by numerous other business libraries, and provided training sessions on the Bloomberg terminal and other databases for students.

Linda said her responsibilities at Lippincott were challenging and never boring. They were also subject to seemingly constant advances in technology, and she often told her colleagues, "The only constant around here is change!" Her favorite part of the job was fielding questions and research requests at the library's reference desk, as she found both the personal interaction with students and faculty and the intellectual element of the search for information to be extremely rewarding. While working at the library, she took courses in the Wharton Evening School to enhance her own knowledge of the subject matter.

Upon moving to New York from Philadelphia in 2008, Linda worked as an adjunct librarian for two years at Baruch College. In the summer of 2013, she began volunteering at the Museum of American Finance, where she has been organizing the Museum's library. She also ran an intern training session on how to use the Bloomberg terminal, which is part of the Museum's "Financial Markets" exhibition.

Linda said the most exciting part of her volunteer service is discovering rare and interesting books in the Museum's library, including many early editions and autographed copies. Among her recent discoveries is a book signed by Herbert Hoover, as well as one by Joseph P. Kennedy stating that he has "no political ambitions for himself or his family."

When she is not volunteering at the Museum, Linda takes classes at Hunter College, the 92nd Street Y and the New York Public Library. She and her husband enjoy visiting the Metropolitan Museum of Art and attending the New York Philharmonic. She also enjoys spending time with her children, grandchildren and twin great-grandchildren. $

MU$EUM OF AMERICAN FINANCE

UPCOMING EVENTS CALENDAR

Mar 26 Lunch and Learn Series: Knut Rostad with special guest Jack Bogle on *The Man in the Arena*. 12:30 – 1:30 p.m. Talk followed by Q&A and book signing. $5; members and students free.

Apr 1 Lecture/Symposia Series: Carrie Schwab-Pomerantz on *The Charles Schwab Guide to Finances After Fifty*. 5:30 – 7:00 p.m. Talk followed by Q&A, book signing and reception. $15; members and students free.

Apr 8 Lecture/Symposia Series: Panel discussion on "Developments in the World Capital Markets," in conjunction with the International Stock Exchange Executives Emeriti (ISEEE). 5:00 – 6:30 p.m. Program followed by Q&A and reception. Free and open to the public.

Apr 15 Lecture/Symposia Series: Sheila Bair on *Bull by the Horns*. 5:30 – 7:00 p.m. Talk followed by Q&A, book signing and reception. $15; members and students free.

Apr 30 Lunch and Learn Series: Vicki Mack on *Frank A. Vanderlip: The Banker Who Changed America*. 12:30 – 1:30 p.m. Talk followed by Q&A and book signing. $5; members and students free.

For information and reservations, please contact Tempris Small at 212-908-4110 or tsmall@moaf.org.
Visit our website at www.moaf.org/events for additional events and tours.

FEB 2 1848 For $15 million, the US purchases Arizona, California, New Mexico and Texas, along with parts of Colorado, Nevada and Utah from Mexico under the Treaty of Guadalupe Hidalgo.

FEB 13 1990 Junk-bond giant Drexel Burnham Lambert seeks bankruptcy protection.

Lansingburgh Museum Note

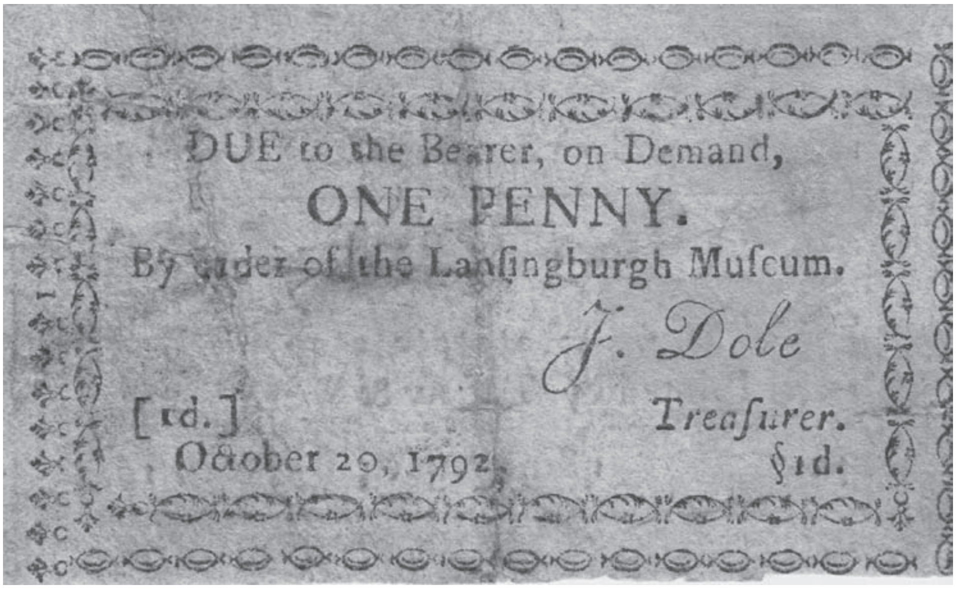
By Becky Laughner

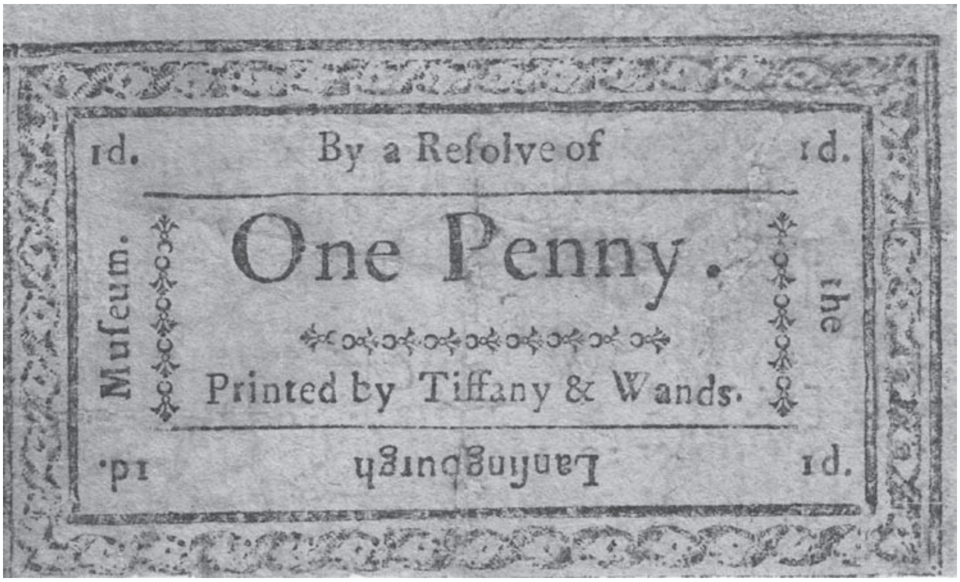
One of the concepts the Museum tries to impress upon visitors is that money was very different in the past than it is today. It was only in 1862 that the US Treasury began issuing legal tender. Prior to that, banks, businesses and even some wealthy individuals issued notes that circulated as money. Even schools, educational institutions and museums issued money.

The note shown here is part of the Museum's collection of early American paper currency. This "one penny" note was issued by the Lansingburgh Museum in Lansingburgh, NY, located on the Hudson River just north of Albany. In his book, *The Early Paper Money of America,* paper money expert Eric P. Newman says the museum was founded in 1775 as a library and educational organization.

At least 27 different merchants in Rensselaer County pledged to accept the museum's notes, which were issued in four denominations — one penny, twopence, threepence and fourpence. The notes were signed by the museum's treasurer, James Dole, and were printed by a local printer owned by Silvester Tiffany and William H. Wands. Tiffany also owned a bookstore in Lansingburgh.

As a result of the copper panic of 1789, many institutions preferred printing small change over minting devalued copper coins. Small change notes began replacing the deluge of "coppers," which the public had lost confidence in. This "penny" represents an interesting moment in US history and is also a rare specimen of early, privately-issued US paper currency. $





Museum of American Finance

Front and back of one penny note issued by the Lansingburgh Museum in 1792 (enlarged).

MAR 4 1957

Standard & Poor's introduces a new stock index, which it initially calls the "Standard 500 Index." Now known as the S&P 500, the index uses a "scientific weighting formula" that enables investors to measure the movement in the total value of most of America's major stocks.

The Indispensable Benjamin Strong

By Dan Cooper and Brian Grinder

"The men who are engaged in running the Federal Reserve System were handed this Act as a printed document… and told to open the Federal Reserve in 16 days; and from that time on. With a great war raging, we were expected to construct out of thin air something that had not existed for over 80 years. And I am frank to say that we knew mighty little about it."

— Benjamin Strong

George Washington, according to historian James Thomas Flexner, was indispensable. Flexner argues that after the infamous Conway Cabal, the threat that Washington "might be eliminated made Americans visualize leadership without him." At that point, "Washington was recognized as the indispensable man." He went on to lead the Revolutionary Army to victory and was later called out of retirement to help create the US Constitution and then serve two terms as the first President of the United States.

The word "indispensable" can be used to describe very few people. Although many might think of themselves as indispensable, it is rare for those around them to think the same. Although Benjamin Strong would never come close to achieving Washington's level of popularity, he was indeed indispensable in the founding and establishment of the Federal Reserve System.

Although he initially opposed the Federal Reserve Act of 1913, which created the Federal Reserve System, and initially refused to accept the offer to serve as the first governor of the Federal Reserve Bank of New York, Strong was eventually persuaded by Henry Davison and Paul Warburg to accept the position. His primary objection to the Federal Reserve Act lay in the creation of 12 reserve banks. According to Federal Reserve historian Allan Meltzer, Strong "regarded the 12 reserve banks as 11 too many."

Strong supported the Aldrich Plan of 1911 that proposed the creation of a single central bank based on the central banks of Europe, but after the Republican-backed Aldrich Plan was defeated, and the Federal Reserve Act passed on December 23, 1913, Strong eventually realized that he could work within the essentially flawed structure of the Act to achieve a better and more efficient financial system for the United States.

Meltzer describes Strong as, "the dominant personality in the early days of the System" whose "early views were the views of a sophisticated banker with little formal training, who gained enough understanding of the functioning of the domestic and international payments mechanisms to be ahead of most of his contemporaries. He saw the Federal Reserve Act as an opportunity to expand the international operations of United States banks…"

Strong descended from New England Puritan stock that first arrived in this country in 1630. His great-grandfather, also named Benjamin, was Alexander Hamilton's first clerk in the Treasury from 1789 to 1791. Born in 1872 in Fishkill, NY to parents with very little money, Strong was unable to fulfill his dream of attending Princeton University and instead moved to New York City to pursue a career in finance. He eventually became secretary of the Atlantic Trust Company, married Margaret LeBoutillier in 1895, and began what Strong biographer Lester Chandler described as "the happiest 10 years of his adult life."

During this time, the Strongs added two sons and two daughters to their family and moved to Englewood, NJ, which also happened to be the home of JP Morgan partner Henry Davison. Davison had a penchant for discovering talented neighbors and bringing them into the Morgan fold. In 1904, Davison offered Strong the position of secretary of the Bankers Trust Company.

Strong seemed set for life, but tragedy struck in less than a year when his wife, evidently suffering from postpartum

Benjamin Strong, first governor of the Federal Reserve Bank of New York, at his desk.

depression, committed suicide. When his oldest daughter died of scarlet fever a year later, Davison and his wife took Strong's remaining children into their home while Strong immersed himself in his work. In 1907, Strong married Katherine Converse, the young daughter of the president of the Bankers Trust. Katherine left Strong in 1916 and moved to California with their two daughters. The divorce, which followed a few years later, stripped Strong of any semblance of a normal family life, and he threw himself into his work at the Federal Reserve Bank of New York.

At the Bankers Trust Company, Strong experienced the Panic of 1907 first hand. His own bank emerged from the panic unscathed, but when the Morgan concerns decided to help out solvent institutions that were in trouble, Strong was appointed to head a committee whose purpose was to identify troubled financial institutions that could be saved. His initial assignment was to examine the books of the Knickerbocker Trust Company, but he was unable to perform the task before the Knickerbocker closed its doors.

However, thanks to Strong, many other institutions were saved from the Knickerbocker's fate. His experience during the Panic of 1907 convinced Strong that reform was needed, and he represented Morgan interests at the super-secret conference held on Jekyll Island in November of 1910 that served as a catalyst for the creation of the Federal Reserve System (*see related article, page 16*).

The Federal Reserve System consisted of the 12 Federal Reserve banks and was overseen by the Washington, DC-based Federal Reserve Board. The eight members of the Board were appointed by the President of the United States. The purpose of the Board was unclear from the beginning, leading economist John Kenneth Galbraith to describe it as "a body of startling incompetence." Chandler writes that Strong anticipated the necessity of coordinating the activities of the 12 reserve banks, noting that, "He was determined to do everything in his power to create such a degree of cooperation as to eliminate regional jealousies, develop consistent policies and permit the mobilization and use of all the System's resources at any point of need…"

Federal Reserve Bank of New York, Curating Section

Benjamin Strong (second from left) with Henry B. Schacht, Montague Norman and Charles Rist in front of the Federal Reserve Bank of New York, 1927.

Galbraith argued that Strong was "the first American since Nicholas Biddle to make an important reputation as a central banker. Strong's views," he added, "were regarded throughout the System with only a little less awe than the gold standard." Author Ron Chernow called Strong, "A giant presence in American finance [who] tutored the still green Federal Reserve governors in the art of central banking." For all practical purposes, Strong was the leader of the Federal Reserve System.

His leadership was clearly acknowledged by the other governors and reluctantly recognized by the politically-motivated Board. It was Strong who organized and led the executive committee of the governors conference. It was Strong who first came to understand the power of open market operations in regulating credit, and it was Strong who grasped the importance of cooperating with the central banks of other nations even as the US government began retreating into isolationism. Strong's irreplaceability was most clearly seen when, because of serious health issues, he was unable to work.

Tuberculosis dogged Strong throughout most of his career at the Federal Reserve and forced him to take several extended leaves from the Fed in order to recover. When he was first diagnosed in 1916, Strong offered his resignation to the directors of the Federal Reserve Bank of New York, but they refused it offering him a year's leave of absence instead.

Strong went to Colorado to recover, and his stay there lasted from June 1916 to April 1917. In 1920, he was again forced to take a 13-month leave because of his weakened lungs and because of the incredible stress he had suffered under the weight of his war financing responsibilities during World War I. Strong again offered to resign in December of 1919, but the directors again refused to accept his resignation, offering him a year's leave of absence at half-pay instead.

After considerable discussion, the Federal Reserve Board in Washington, DC approved Strong's leave. There was at least one board member, most likely the one academic on the board, who moved that the board obtain Strong's resignation and find a new governor for the New York bank. The motion was tabled.

In 1926, Strong was out for more than six months because of tuberculosis of the larynx. He again offered to resign, but the directors countered with an offer of six months leave at full pay. In early 1927, a bout of influenza and pneumonia nearly killed him and forced him into a seven-month leave of absence.

Finally, in late 1927, his doctors told him that if he didn't resign and focus all of his attention on regaining his health, he would not live. Strong died on October 16, 1928, after surgery failed to stem intestinal bleeding. The 55-year-old Strong never got the chance to resign.

Some claim that if Strong had been granted an additional year of life and health, the Great Depression might have only lasted a year or two. Others disagree, but we will never know. It is clear, however, that Benjamin Strong offered the new Federal Reserve System a dynamic and effective style of leadership that was sorely needed during its early years. Leadership that was unavailable from anywhere else: the type of leadership that made him indispensable. $

Dr. Dan Cooper is the president of Active Learning Technologies. Brian Grinder is a professor at Eastern Washington University and a member of Financial History*'s editorial board.*

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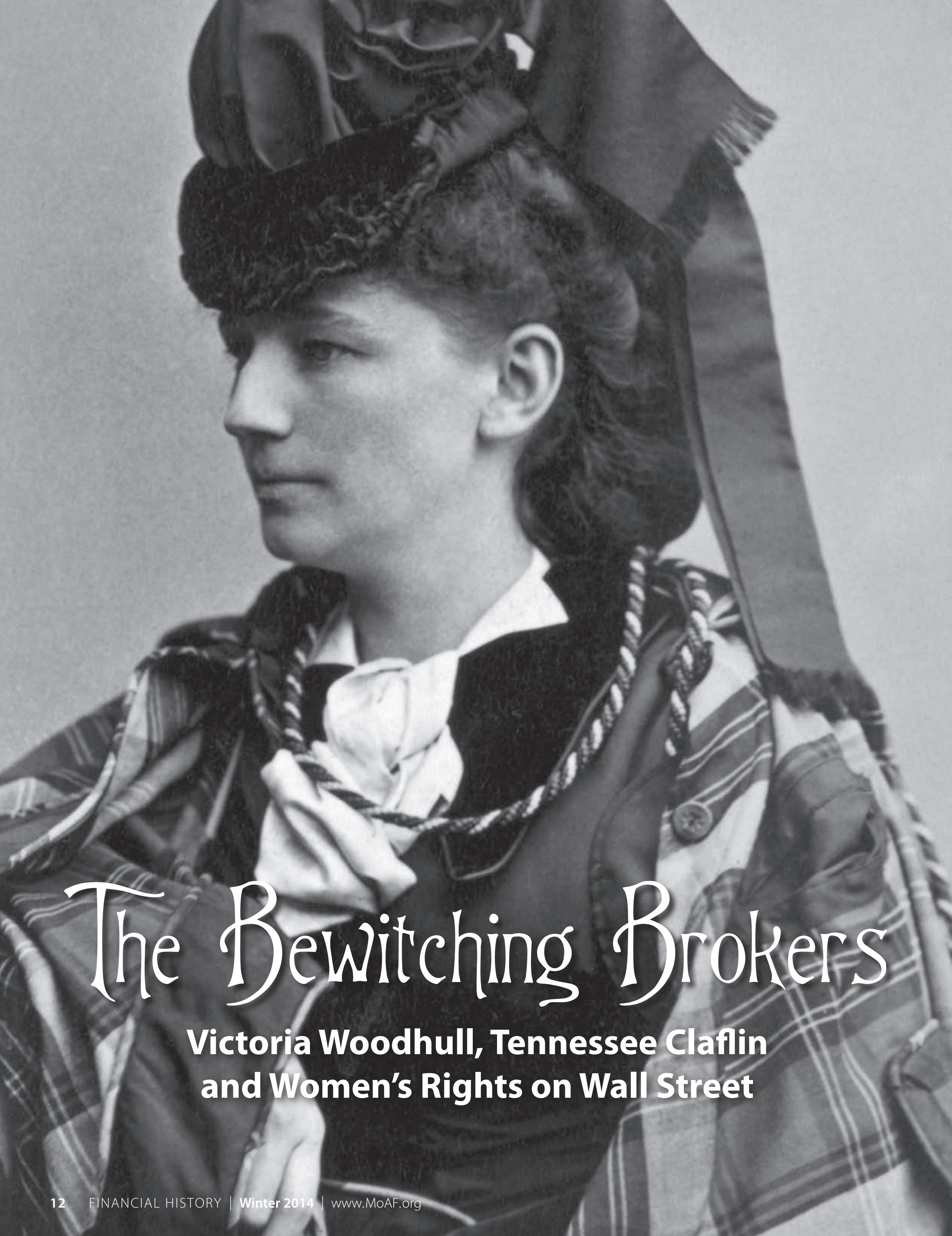


The Bewitching Brokers

Victoria Woodhull, Tennessee Claflin and Women's Rights on Wall Street

By Myra MacPherson

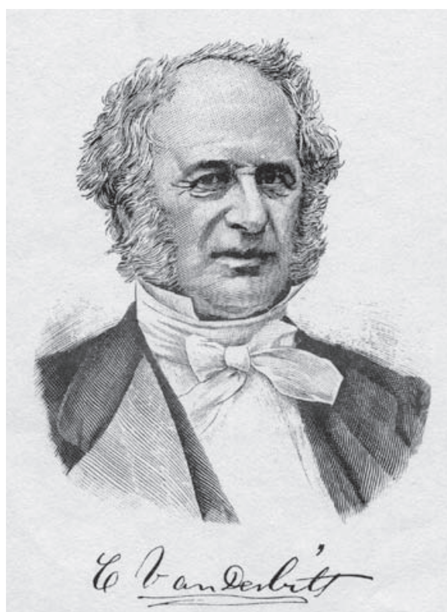
In the early days of the Gilded Age, when women had virtually no power of their own, two sisters fought for women's equality everywhere — from the bedroom to the boardroom. In 1870, Victoria Woodhull and Tennessee "Tennie" Claflin opened America's first female-owned brokerage firm, shocking Wall Street and the world, a feat that was not equaled for almost 100 years. Two thousand traders rushed into Broad Street to witness the opening of the Woodhull, Claflin and Co. office, and 100 policemen were called out to keep order. The buzz on the Street was that old Cornelius Vanderbilt, the richest man in America, had bankrolled these two beauties, which added to the allure.

To ensure that the grand opening of their brokerage and banking firm would be a sensation, the sisters invited a *New York Herald* reporter for an interview a few weeks before, in their temporary headquarters: two parlors in the posh Hoffman House at 24th and Broadway. The sisters showed startling aplomb by doing business in a hotel, the domain of visiting male politicians, magnates and financiers.

The *Herald* reporter eagerly appeared at the sisters' Hoffman House parlor, which was "profusely decorated with oil paintings and statuary." Cornelius "Commodore" Vanderbilt, a close friend of the sisters rumored to have had an affair with Tennie, stared down from the wall in a large photograph so prominent that the reporter enthused "his spirit is there… as though the mantle of the genial old Commodore had descended upon their shoulders."

When a smiling and buoyant Tennie sailed into the room, she drew her chair close to the reporter's and expressed surprise that he should honor her with a visit, despite the fact that the sisters had orchestrated it. The reporter termed her "a business woman — keen, shrewd, whole souled, masculine in manner, and apparently a firm foe of the 'girl of the period' creation or those who questioned her novel career."

Asked if she didn't find, as a woman, her new venture "rather awkward," Tennie retorted, "I don't care what society thinks... Were I to notice what is said by what they call 'society' I could never leave my apartments except in fantastic walking dress or in ballroom costume; but I despise what squeamy, crying girls or powdered counter jumping dandies say of me… I think a woman is just as capable of making a living as a man… My mind is on my business and I attend to that solely."



Museum of American Finance

Cornelius Vanderbilt, close friend of Victoria Woodhull and Tennessee Claflin, was generally believed to be their financial backer.

When the reporter questioned her experience, Tennie shot back, "I know as much of the world as men who are older. Besides we have a strong [backing]. We have the counsel of those who have more experience than we have, and we are endorsed by the best backers in the city."

"I have been told that Commodore Vanderbilt is working in the interest of your firm. It is stated that you frequently call at his office about business. Is this true?" asked the reporter. "I know the Commodore and frequently call to see him on business, but I am not prepared to state anything as to whether he is working with us."

Before Tennie could say anything more about Vanderbilt, Victoria entered the parlor: a woman with a "keen, bright eye... very plainly dressed, with a single rose tastefully inserted in her hair." Although Victoria wove with ease her false tales of being well-educated and a veritable child prodigy in the financial world, the prescient reporter spied a "nervous temperament" beneath her regal control. "It might be apprehended that a serious financial shock would not tell well on her constitution."

Two weeks later, on February 5, their opening day, the sisters joined rush hour traffic as private carriages, horse-drawn omnibuses, carts, wagons and horseback riders clogged the way.

Among the mob that watched the sisters drive into Broad Street were many lesser Wall Street regulars, who scorned the women's invasion into this man's world. The sisters, however, had an affinity for the major titans, who, like them, often started poor and had never looked back — men such as the semiliterate Vanderbilt, who began by ferrying small craft in his teens and fought, bribed and plundered his way to the top of America's shipping and railroad dynasty.

Vanderbilt and other gamblers had wrestled one another in fierce financial battles, and in so doing, had created a new America — a land webbed with railroads and teeming with industrial progress and manufacturing might. These men were unquenchable risk takers, addicted to gambling, and they often succeeded with astounding verve, willing to lose it all one day and regain it the next. The game and the power propelled them as much as the money.

The Claflin sisters had more in common with these men than they did with the upper class women who would never accept them, or with the middle class suffragists.

The sisters had lived a tough enough life to cope with men such as Vanderbilt, Gould, Drew and Fisk, who was just 29 when he formed his alliance with Vanderbilt's occasional friend but more often enemy, Daniel Drew. Nearly illiterate, Drew habitually used a broken umbrella as a cane, and mopped his face with a red bandana. He seemed unfamiliar with

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Portrait of Victoria Woodhull, co-founder of Wall Street's first female-owned brokerage.

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Sisters Victoria Woodhull and Tennessee Claflin (front row) surrounded by fellow suffragists.

a smile, his thin lips perennially drawn downward. It was said that under that ragman's guise and pious Bible reading there beat "the heart of a shark."

The other young man partnering with Fisk and Drew, Jay Gould, was a brooding, dark genius who grew up poor and sickly. Gould lived on greed alone at this stage of his long career, fleecing his partners and others. For his part, Fisk overshadowed by far all others on the Street with his diamond-studded, mistress-flaunting flamboyance, but he was "no isolated phenomenon; rather, a splendid reflection of the immorality of his time."

Reporters who poured into the sisters' elegant offices at 44 Broad Street throughout their opening week in February 1870 praised the "Bewitching Brokers." Tennie was regarded as the spokesperson; it was said that "Tennie was the Jim Fisk and Victoria the Jay Gould" of the firm.

No matter their reservations, Wall Street's old guard was drawn by the Commodore's name and came out for the sister's opening day. Major brokerage firms sent august representatives to welcome the sisters, including Peter Cooper, for whom Cooper Union is named, and the esteemed Jay Cooke. Bankers had come to laugh, but they left impressed.

Even Drew showed up, growling that he had not aided the sisters and had never met them until opening day. Everyone assumed that his nemesis, Vanderbilt, had bankrolled the sisters. Henry Clews, president of the Fourth National Bank, confirmed that the sisters had deposited a $7,000 check bearing Vanderbilt's signature. This was but a teaspoon's dip into Vanderbilt's honey pot, but for the sisters it was a fine sum — worth a good $150,000 or more today — with which to help start Woodhull, Claflin and Co. It could have been just the proceeds from stocks in which Vanderbilt had invested their own money, but the Street thought it was, as Clews wrote, money to put them in business.

The sisters' friendship with Vanderbilt illustrates how truly pragmatic they were in dealing with anyone who could help them. Vanderbilt could hardly be viewed in the vanguard of feminist support, which the sisters so strongly championed. His womanizing was legendary, and when his first wife, the mother of his 13 children, balked at leaving Staten Island for his Washington Square home, he had her committed to an insane asylum until she came to her wits and moved to Manhattan.

Vanderbilt's famous signature on their check meant everything to the sisters. More than the money, his power led to their tumultuous renown and notoriety. Vanderbilt's biographer, T.J. Stiles, sees the sisters as fleeting diversions in the tycoon's long life, and points out that Vanderbilt soon shunned them and that their brokerage firm did not last. However, without his initial push, the sisters would have been unknown trifles in a class-conscious world. Without Vanderbilt, their ride on Wall Street and their subsequent fame as suffragists, spiritualists, sex radicals, authors and lecturers would likely not have happened.

When Clews announced that he had deposited the Commodore's check for the sisters, the Street listened. Jay Gould, the great manipulator, acknowledged that one speculator "paid Victoria and sister Tennie $1,000-a-day commission through quite a warm summer spell. I don't happen to know the ladies myself, but in their office things certainly do move smoothly; and I don't doubt at all that it is because of that — exclusively for that — that Commodore Vanderbilt stands for them."

In 1652 the Dutch government of then Nieuw Amsterdam built a wall to keep out English settlers who sought land near a strategic harbor. The wall never kept anyone out, as the Dutch settlers found out when the British invaded in 1664, but the wall gave the Financial District its alternate name. In the 17th century, Broad Street was a fetid waterfront canal, and residents were commanded to pave it over. As this rank inlet metamorphosed into the Financial District, the foulness never left; without any regulation, unfettered pillaging made many a war-profiteering scoundrel fabulously rich. The sisters roared onto the Street in this era of wild speculation, where an unknown shoe polish manufacturer one day might become a millionaire the next, suddenly striking it rich in a market complete with easily-bought politicians and judges.

The Williams and Grey firm — which included a forger, bank robber, swindler and murderer, a rather concrete example

of outlaw days on the Street — had hastily vacated the sisters' offices, leaving behind furnishings that the sisters bought at a foreclosure price. The office was "magnificently fitted up" with heavy walnut desks with gold trim, oak chairs upholstered in fine green silk and carpets.

Some 30 feet from the entrance, in a smaller office partitioned off with etched glass and elaborate woodwork, the smiling sisters served strawberries and champagne. It was said that they had instituted after-hours sessions of champagne and frivolity on the Street, but their neighbor on Broad Street, jolly Jim Fisk, had preceded them.

Yet no others on the Street entertained as well as they, moving their after-hours open house to a suite in the Astor House hotel, where they served up roast beef, champagne and bonhomie. Some of the famously wealthy were regulars, and even Clews, who despised the sisters' boldness, couldn't keep away. Among their guests were Arthur Brisbane, the wealthy Utopian; William Hillyer, President Grant's former chief of staff; a reverend or two; and the president of the Stock Exchange board. Capitalist "presidents" abounded — of Western Union, the Home Insurance Fire Company, the Continental Bank — plus the vice president of the Union Pacific Railroad.

The sisters also cleverly created something amazingly progressive: a private entrance leading to a female-only back room for women stock traders. The sisters' up-front role in the financial world was beyond belief; the ladies' back room sported an unprecedented mix of elderly, sedate spinsters and young "blondes, fair and fresh as pippins," who came to mock but who left thinking that "there were other things to live for besides cosmetics, the toilet, fashion and vanity." Housewives who had managed to save money, madams seeking to grow their portfolios and feminists also joined the group.

Susan B. Anthony, the prototypical grim-faced Quaker spinster, set out to survey the sisters. Her long-time suffrage partner, Elizabeth Cady Stanton, looked the innocent rotund matron, with silver curls and the heft of having borne seven children. But looks deceived. In addition to being defiantly courageous, both were sharply witty — and both were interested in the swirling gossip within the women's movement.

Anthony was ecstatic when she visited the firm, a few weeks after its opening. She commented on Tennie's striking looks — "a handsome blonde." Tennie had no problem being the stylish businesswoman, despite her tirades about fancy-dressed women. She wore a blue suit trimmed with black astrakhan fur, held her hands in a matching astrakhan muff, and topped her hair with a black velvet hat trimmed with black feathers. Anthony wore black and parted her hair straight down the middle and pulled into a severe bun that did nothing to soften her thin-lipped face or mitigate her slightly crossed eyes squinting behind rimless glasses. She could have disliked Tennie on sight, having no love for idle women of fashion, but these physical opposites hit it off.

"Instead of making shirts at 50 cents each (one per day) for a living, these two ladies (for they are ladies) determined to use their brains, their energy and their knowledge of business to earn them a livelihood," wrote Anthony in the *Revolution*, the women's rights newspaper she and Stanton published. "Their presence on Wall Street marks a new era." The day she visited the firm, Anthony had picked her way through a crowd of men, and commented with distaste, "Wall Street has been so exclusively monopolized by men that it has not yet got over a bad habit of staring at a passing woman."

Tennie enthusiastically greeted Anthony at the women's entrance, guided her into the inner sanctum, and casually flipped off her hat. Anthony sat on a green silk lounge and got to the point: "What first suggested to you the idea of coming into the rush and tumble of Wall Street?" Tennie replied, "The necessity for earning a livelihood…a knowledge of financial matters, and unfitness for the slow, dreary methods by which women usually earn a living."

After her article on Tennie, Anthony wrote an editorial in the *Revolution* stating that the sisters were stimulating "the whole future of woman": "They are full of pluck, energy, and enterprise, and are withal most prepossessing in personal appearance, in manners, and lady-like deportment; moreover they 'know what they are all about,' and are calculated to inspire confidence by the sound sense, judgment and clear-sightedness they show in financial matters."

Despite prejudices, so many capitalists and speculators were willing to try the female firm that Victoria and Tennie were swamped in their early days. They had impressed many with their coolness under fire.

Wall Street, however, was but a stepping-stone for the sisters' next venture. Victoria and Tennie had what they wanted: fame and enough money to move on, infuriating Wall Street regulars who saw them as dilettantes. Victoria soon left the daily brokerage duties to Colonel Blood, and sprang a surprise that she had promised in January to "reveal soon."

A week after the opening of the firm, Woodhull had spoken bitterly to a reporter about other women, stating "our own has universally thrown dirt at us." The sister did not buy the notion that women were "despoiled of most of their rights by the domineering will of man." On the contrary, said Victoria, as soon as women were "prepared to perform" outside their sphere, "the right to do so cannot be withheld."

The public was hearing for the first time her ringing cry for freedom. "We propose revolution whenever the chains of conservatism drop too slowly and leave us chafing under their restraint too long."

Six weeks later, on April 2, 1870, Woodhull announced what no woman had ever dared. She was putting her name up for nomination for presidency of the United States, giving herself a two-year head start to form a political following and organization. $

Myra MacPherson is the award-winning and best-selling author of five books, including the explosive look at political marriages, The Power Lovers, *the Vietnam War classic* Long Time Passing *and the searing* All Governments Lie. *She was an acclaimed journalist at the* Washington Post *for many years, and has also written for* The New York Times, *numerous magazines and websites.*

Frank Vanderlip
and the Founding of the Fed

"Just fancy yourself as a banker - and discovering outside your plate glass facade an ever-lengthening column of men and women, all having bankbooks and checks clutched in their hands. Fancy those who would be best known to you, the ones with the biggest balances, pushing to the head of the line — there to bargain excitedly with the depositors holding the places nearest the wickets of the paying tellers. Even that won't give you a hint of what a banker's dread is like unless you heighten the effect with a swarm of hoarse-throated newsboys, each with his cry pitched to a hysterical scream; and then give the hideous concert an over-tone of sound from the scuffling feet of a mob."

— Frank A. Vanderlip

Courtesy of the Jekyll Island Museum Archives

By Vicki A. Mack

Frank A. Vanderlip is describing the Bank Crisis of 1907, but with adjustments for modern technology, he could be describing a modern banker's worst nightmare. Vanderlip was, at the time, vice president of National City Bank of New York, the largest in the country, now known as Citibank. For over a month, he worked day and night with financial kingpin J.P. Morgan and other bankers to stave off what could have been the collapse of the entire financial system. The incident left an enduring impression on his philosophy.

Unlike most of his associates, Vanderlip did not come from a family of privilege. He was raised on an Illinois farm, and at the age of 16 he stood on the front lawn watching his family's land and possessions auctioned off after the death of his father. He never forgot his roots, or how quickly one's fortunes could be reversed.

Both incidents were on his mind on the night of November 22, 1910, as he approached a private railroad car in New Jersey. Now the president of his bank, Vanderlip felt as secretive as a conspirator, in his custom-tailored British overcoat and fedora hat. Although the other men on board were known to Vanderlip and to each other, he said "we began to observe the taboo that had been fixed on last names. We addressed each other as 'Ben,' 'Paul,' 'Nelson,' 'Abe.' Davison and I adopted even deeper disguises, abandoning our own first names. On the theory that we were always right, he became Wilbur and I became Orville, after those two aviation pioneers, the Wright brothers."

The men were taking a train ride into the history books. They were on their way to Jekyll Island, Georgia, to create the Federal Reserve System.

According to Vanderlip, the only witness to describe the adventure, the passengers included Senator Nelson Aldrich; Assistant Secretary of the Treasury A. Piatt Andrew; J.P. Morgan and Company Partner Henry P. Davison; Kuhn, Loeb and Company Partner Paul M. Warburg; Bankers Trust of New York Vice President Benjamin Strong, Jr.; and Vanderlip himself.

The Jekyll Island clubhouse, where several of the nation's most prominent bankers met in 1910.

Some sources say Strong was not on the island, but was included in so many follow-up discussions that he became a member of the group. Others add to the group Charles D. Norton, president of J.P. Morgan's First National Bank of New York, and the Senator's personal secretary, Arthur Shelton.

Collection of Vicki A. Mack

Frank A. Vanderlip in his office at National City Bank of New York, 1909.

The idea of a central banking authority had been discussed and debated since the founding of the United States. Alexander Hamilton's plan, commonly known as the First Bank of the United States, was intended to bring order and stability to the new country's financial system. It was to be privately owned, but under the close watch of the Secretary of the Treasury. Thomas Jefferson and James Madison vehemently opposed a national bank, claiming it was a dangerous violation of the Constitution and was only being established to benefit northern business interests.

After the First Bank's charter expired 20 years later, in 1811, each succeeding attempt brought a series of experimental systems, always with opponents citing the Jeffersonian position.

After the Bank Crisis of 1907, the financial community knew changes had to be made to safeguard the nation's monetary system, but they debated what those changes should be. Searching for answers, Congress appointed a joint commission of members of both houses to study the issue, led by Senator Nelson Aldrich.

Secret Train to Jekyll Island

Senator Aldrich gathered the bankers aboard his train car. He knew he needed help, but according to Vanderlip, "it would be fatal to Senator Aldrich's plan to have it known that he was calling on anybody from Wall Street to help him in preparing his report and bill." To maintain secrecy, the bankers were instructed to leave their last names behind, to avoid dining together before the departure and to arrive at the train one at a time, and as unobtrusively as possible.

Once the train was rolling, the men went to work. At first each spoke of his own concerns, but then Vanderlip made a suggestion: "What we ought to do first is to set down those things about which we are agreed, then, one by one, we can take up those things about which we seem to disagree."

With training in shorthand from his youth, Vanderlip became the recording secretary as the group, representing about one quarter of the world's wealth, rode the rails down the coast in the dark.

According to Vanderlip, "We were taken by boat from the mainland to Jekyll Island and for a week or 10 days were completely secluded, without any contact by telephone or telegraph with the outside. We had disappeared from the world onto a deserted island. There we worked in a club-house built for people with a taste for luxury."

The participants agreed from the beginning that it was necessary to have a more elastic currency through a bank that would hold the reserves of all banks in order to avoid a repeat of the Bank Crisis of 1907, but they debated many serious questions, including:

- If it was to be a central bank, how was it to be owned? By the banks, by the government, or jointly?
- Should it be a number of institutions, or only one?
- Should the interest rate be the same for the whole nation?

Courtesy of the Jekyll Island Museum Archives

The dining room of the Jekyll Island Club, circa 1918.

- Should it restrict its services to banks?
- What open market operations should it be engaged in?

Writing in defense of criticism of the meeting that continues to this day, Vanderlip asserts, "If what we had done then had been made known publicly, the effort would have been denounced as a piece of Wall Street chicanery, which it certainly was not. Aldrich never was a man to be a mere servant of the so-called money interests. He had called on the four of us who had Wall Street addresses because he knew that we had for years been studying aspects of the problem with which it was his public duty to deal."

The Aldrich Plan

After the group returned north, Senator Aldrich planned to present the bill the group had drafted to Congress. He fell ill, so Vanderlip and Strong went to Washington to write the report that would accompany the bill, known as the Aldrich Plan, which was introduced on January 11, 1912.

The plan called for a central bank, to be called the National Reserve Association, controlled by private bankers and financial experts. It would print money that would be an obligation of the private banks, and it would be the "principal fiscal agent of the United States." There would be 15 district associations, and a total of 46 directors on the board. Three-fifths of the directors would be elected by the member banks without regard to their size, an idea the Aldrich Plan said was "more democratic in form, with more liberal representation to minorities than any method in general use."

The chairman of the board of directors would be the governor of the National Reserve Association. He would be appointed by the President and would serve a 10-year term, unless he was removed by a vote of the board. The government would be represented on the board by the Secretary of the Treasury, the Secretary of Agriculture, the Secretary of Commerce and Labor and the Comptroller of the Currency.

The Aldrich Plan did not pass in Congress. Senator Aldrich retired, and Democrat Woodrow Wilson became President in 1912. His party platform opposed the Aldrich Plan, but supported the general idea of banking reform.

The Glass-Owen Plan

President Wilson set his own party to work on a plan that, originally, would not have a central bank at all. The chairmen of the House and Senate Banking and Currency Committees, Representative Carter Glass and Senator Robert Latham Owen, worked for months, introducing what would be known as the Glass-Owen bill on June 26, 1913.

Instead of a central bank, this plan called for 12 or more privately-owned regional banks which would perform the same functions as one central unit. They would be under the control of one central, government-controlled entity known as the Federal Reserve Board. It would coordinate monetary policy through the regional banks, and currency printed though the Federal Reserve Board would become an obligation of the US government.

Conservative Republicans were vehemently opposed to this plan, as bankers would have no control over their own industry. Progressive Democrats in the House, backed by William Jennings Bryan, wanted strong government oversight, and approved of the Glass-Owen bill. The bill passed the Democratic House, 285 to 85, on September 18, 1913.

The Senate was not so easily swayed. It debated and wrangled for months, with the Senate Banking Committee holding hearings from September through October. That is when Vanderlip stepped into the fray.

The Vanderlip Plan

Vanderlip testified on October 6, 1913. He opposed three points in the Glass-Owen Plan: the independence of regional reserve banks, the plan to have the new form of

issued currency backed by assets other than gold and the section compelling all national banks to become members of the new association. He said there were many good qualities to the Glass-Owen bill and "took issue with many bankers who have criticized adversely different parts of the bill," according to the *New York Tribune*. Although he believed Glass-Owen was a step in the right direction, Vanderlip agreed with the banking community that it gave too much political control over the banking system.

Vanderlip then threw a new plan into the ring. The sponsors of his proposed bill were Senators Hitchcock, Nelson, Bristow, Crawford, McLean and Weeks, but it became known as the Vanderlip Plan. It called for a federally-controlled central bank and 12 regional banks around the country. There would be nine members of the Federal Reserve board of directors, five of them representing the government and four representing banking interests, giving the government a measure of control. But, the public would be able to purchase stock in the regional banks, theoretically putting them in control as stockholders, while bankers would still have some power.

The Senate Banking Committee adopted three of the Vanderlip Plan ideas on November 6, 1913, with several of the Democrats and all of the Republicans voting for them. The public was given the right to own stock in the regional banks. The Federal Reserve Board would have the right to appoint five of the nine directors of the regional banks. The proposed new currency was, according to *The New York Times*, "made redeemable solely in gold, instead of in gold and lawful money, a change earnestly advocated by Mr. Vanderlip and by practically every banker that testified before the committee."

It seemed for a while as if Glass-Owen would be derailed for the rest of the year while discussion ensued. President Wilson was furious. Some of the Democrats called for a binding party caucus, but their leadership felt that would simply accentuate differences within the party, although the "extreme Wilson wing of the party" wanted the President to "run a freight train over the recalcitrant Democrats."

In a show of partisan politics recognizable today, Senator Simmons said, "There is no reason to suppose that the Democrats on the floor of the Senate will support a bill that did not have the support of a majority of the Democrats in committee."

On November 10, 1913, Vanderlip, Congressman Glass and Senator Owen held a friendly debate on their two plans in front of a discerning audience. The Economic Club of New York held a dinner at the Hotel Astor attended by 1,200 bankers and businessmen.

The first speaker was Vanderlip's original mentor, Joseph French Johnson, now Dean of the School of Commerce at New York University. Johnson explained how the Democratic Party, of which he was a member, meant to write into their party platform the phrase, "We oppose the so-called Aldrich Plan for the establishment of a central bank." Instead, the word "for" was accidentally replaced with the word "or," fundamentally turning the entire party against the idea of any central bank at all, due to a "trifling typographical error, the omission of a single letter of the alphabet," according to *The New York Times*.

Vanderlip spoke next, beginning with a spirited defense of Wall Street and bankers. "What does this cry of government by the people really mean? Who are the people? Are not my associates and am not I one of them?"

He explained how he and many of his associates came from simple beginnings, and went on to justify why such men should be entrusted with their positions, hinting that they knew more about the subject than the average person. "Do you want the advice of men who have started in most humble surroundings and remained there, or of men who, in spite of every handicap, have surmounted the barriers and have made a success of life?" he asked. "I decline quietly to be tagged a discredited citizen, or to come before you with an apology for the business in which I am engaged."

Senator Glass spoke next, and defended his bill, saying his committee had listened intently to bankers before ever crafting the legislation. "It seemed fair to me that they should be represented. When the President of the United States in conference gave it as his opinion that they should not be represented, I didn't sleep a wink that night." He added, "There are many things I can learn, but what I have been unable to learn is what the American bankers really want."

The Vanderlip/Hitchcock Plan was officially entered as a proposal into the Congressional Record on November 22, 1913. The House passed the Glass-Owen bill with the Hitchcock amendments November 24. A slightly different version passed the Senate on December 18. After reconciliation of the two, the House voted yes on December 22, and the Senate did the same the following day. President Wilson signed the Federal Reserve Act into law on December 23, 1913.

There would be a seven member Federal Reserve Board appointed by the President and approved by the Senate. The Board would oversee the district banks, generally regulate the banking system and set national monetary policy.

Each of the 12 branches would have its own board of directors. There would be a single national currency, originally called Federal Reserve bank notes. The notes were to be backed by one of the 12 branch banks and would be redeemable in gold.

According to Vanderlip, the Federal Reserve Act was basically the same plan proposed by the Jekyll Island group. "The law as enacted provided for 12 banks instead of the one which the Aldrich Plan would have created; but the intent of the law was to coordinate the 12 through the Federal Reserve Board in Washington, so that in effect they would operate as a central bank," he said. "There can be no question about it; Aldrich undoubtedly laid the essential, fundamental lines which finally took the form of the Federal Reserve Law." **$**

Vicki A. Mack is the author of Frank A. Vanderlip: The Banker Who Changed America, *as well as* The Groom's Guide: Almost Everything A Man Needs To Know, *and is co-author with Don Christy of* Up Around The Bend: Stories and Legends of Palos Verdes' Portuguese Bend. *She is a graduate of the University of Missouri School of Journalism.*

HEARD ON THE STREET, AND AROUND THE WORLD

The Wall Street Journal Turns 125 Years Old

By Gregory DL Morris

On its 125th birthday this year, *The Wall Street Journal* surveys the worlds of business and journalism from its lofty perch as the largest circulation daily in the US. It finds itself feted as one of the last bastions of serious committed journalism. At the same time it finds itself, and especially its editorial page, criticized as the Plutocrat Defender.

The publication's first edition was printed July 8, 1889 by a trio of partners: Charles H. Dow, Edward D. Jones and Charles Bergstresser (a different Edward Jones founded the eponymous brokerage). Dow and Jones were up-and-coming business journalists at the Kiernan News Agency in New York who formed their own company in 1882 and published an index of transportation stocks in 1884. The Dow Jones Industrial Average (DJIA) was first published in 1896 (see *Still They Ride*, in *Financial History* issue #80).

It was a heady time for newspapers on both sides of the Atlantic. *The Times of London* was founded in 1821, *The New York Times* in 1851 and the *Financial Times* in 1888. So the *Journal* is the baby of the big four.

The fledgling publication was a success, and Clarence Barron paid $130,000 for Dow Jones & Co. in 1902 (equivalent to $3.7 million today). Its circulation at the time was a modest 7,000. Barron began publishing his eponymous business weekly in 1921 and died in 1928 with the *Journal*'s circulation peaking at about 50,000 about that time. The Great Depression hurt circulation, but the business survived, and Barron's descendants, the Bancrofts, maintained family control of Dow Jones until 2007 when they sold it to News Corp.

THE WALL STREET JOURNAL.

VOL. 1.—NO. 1. NEW YORK, MONDAY, JULY 8, 1889. PRICE TWO CENTS.

THE WALL STREET JOURNAL

DOW, JONES & CO.

DOMINICK & DICKERMAN,

Bankers and Brokers,

Denver 6s and 7s

Average Movement of Prices.

The Market To-Day.

Clearings Last Week.

Bankers Exerting Their Power.

The Petition of Alton.

GILDER, FARR & CO.

Bankers and Brokers

Toledo, Ann Arbor and North Michigan Bonds

CHARLES M. WHITNEY & CO

Bankers,

J. H. STERLING & CO.

Stock Brokers,

The first edition of *The Wall Street Journal,* which sold for two cents in 1889.

Courtesy of Kenneth Winans

Today the *Journal* has a circulation of 2.4 million, just ahead of *The New York Times* at 1.9 million; although the Sunday *Times* has a circulation of 2.3 million. The Grey Lady still leads her downtown rival in Pulitzer Prizes with 112, the most of any paper, to 34 for the *Journal.*

"People here are enormously conscious of the legacy of 125 years," says Gerard Baker, editor-in-chief of Dow Jones and managing editor of *The Wall Street Journal.* "This publication started at a time when there was not much reliable journalism, really just releases by companies. That history does inform the way people work here. People understand the legacy of fairness, accuracy, reliability and trust."

Baker was named to those posts at the start of 2013, succeeding Robert Thomson, who was named CEO of the new publishing entity for News Corp. Baker brought a strong pedigree, including a stint at the Bank of England and a journalistic career through BBC, the *Financial Times* and *The Times of London*.

In many ways, the *Journal* still bears the imprimatur of its founding editor. According to the biographical sketch, "New England Journalist: Highlights in the Newspaper Career of Charles H. Dow," by George W. Bishop, Jr. in a 1960 edition of *The Business History Review*, "It should be noted that before he was 30 years of age, Dow had served under both Samuel Bowles and George W. Danielson, two of the most outstanding editorial figures New England has produced. There is every reason to assume that this experience was of great assistance in his later newspaper career."

Dow started at the *Springfield* (MA) *Republican* in 1872 at age 21 under Bowles, and in 1875 went to the *Providence* (RI) *Star* (morning) *and Evening Press*, then to the *Providence Journal* under Danielson. Dow covered trade and transport in and around southern New England and was sent to cover the 1879 Colorado silver boom. In 1880 he moved to New York.

"Dow was soon known on Wall Street as a reticent but reliable reporter," Bishop wrote. "He made the rounds of the Street, and it was recognized that the quiet, financial reporter who took shorthand notes on his cuffs was turning routine financial

reporting into expert financial analysis. By virtue of his service under Bowles and Danielson, Dow was looked upon as a master journalist. His training and personality were such that the financiers he interviewed recognized immediately that he could be relied upon to quote them accurately, and that he could be trusted with confidential news."

Dow eventually joined the Kiernan News Agency, which had built its own reputation in the emerging field of business journalism. "Kiernan was the headquarters of the roving financial reporters of the New York daily press," wrote Bishop. "Here they would rendezvous and exchange bits of news and Wall Street gossip."

In November 1882, Dow and colleague Jones left the Kiernan News Agency to form their own firm at 15 Wall Street. According to Bishop, it was "a small room in the rear of a ramshackle building next door to the entrance of the Stock Exchange. A printed news sheet containing the principal news items, which Dow Jones began publishing in 1883, was included in the last delivery of the day. This news sheet could be subscribed for separately and was the forerunner of *The Wall Street Journal*."

From Dow and Jones to Barron, the *Journal* seems to attract a certain type of journalist, the way different banks and brokerages attract their own distinct types. John Prestbo is a prime example. Prestbo, freshly graduated from Northwestern University's Medill School of Journalism, found that 1963 was a lousy time to find a job as a reporter and returned to his alma mater for a master's degree. He was able to secure a fellowship to support that effort, which he took to be a positive sign.

On the mulligan in 1964, Prestbo learned that the Chicago bureau chief for *The Wall Street Journal* was interviewing journalists, and was only seeing master's candidates. "When I went into that interview, I had read the *Journal* exactly once," Prestbo recalls. "I got an offer from the *Journal*, and also from the *Evanston* (IL) *Review*. And if you can believe it, I actually had to weigh the decision," he adds with a laugh.

Including several assignments around the Dow Jones organization, Prestbo was with the *Journal* for close to half a century, which is an astonishing tenure in a business notorious for turnover and headcount reductions.

WITHOUT FEAR OR FAVOR

John Prestbo, who spent nearly five decades with *The Wall Street Journal* and Dow Jones, recalls four instances that helped solidify the *Journal*'s reputation.

Texas Gulf Sulphur: In the 1960s sulfur was still mined. In 1964, the Texas Gulf Sulphur Company received a favorable report from a prospective mine in Canada. There was chatter that the mine could be profitable, but the company issued a press release downplaying the potential. Company executives bought shares in advance of the formal announcement of the mine potential and profited when the stock price rose on the public news. An investigation and litigation by the Securities & Exchange Commission (SEC) ensued, and the eponymous case established prohibitions against trading on insider information.

"Before Texas Gulf," recalls Prestbo, "there was no requirement of disclosure. The response to many questions from companies was that they did not have to tell about what was going on inside the firm. After the decision came down, the *Journal* was among the most aggressive publications in demanding disclosure. As a reporter I started asking a lot of questions that would have gotten me tossed out of their offices. But I would just cite, 'full disclosure.' Companies had to learn to be more forthcoming. It was a very important change to the way everyone conducted business."

Toxic Shock Syndrome: Beyond the disclosure requirements of the law, companies vary widely in their openness to the press. "One of the more tight-lipped companies was always Procter & Gamble," recalls Prestbo. "The only information out of them beyond SEC requirements was press releases. When I became Cleveland bureau chief, I made it my goal to change their stance. I went down to Cincinnati and slowly got them to consent to interviews. Then, in early 1980, the news broke about Toxic Shock Syndrome and its link to a new type of superabsorbent tampon. This was a very big problem for P&G. It mushroomed very quickly. But because I had built trust with them, they let me come down and talk with them about how they were handling it. It became a two-part series in the *Journal*." Later that year the company voluntarily recalled its Rely brand and all manufacturers modified their warning labels.

Stealing the Show: Auto makers' new model releases are not a matter of life and death, but they often treat them as such. "Car companies like to keep the new looks a secret," says Prestbo. "General Motors was the most secretive, literally keeping the vehicles under tarps before the formal unveiling. We had a reporter in Detroit who wanted to break the story and break that secrecy. He staked out the routes to the showrooms and got pictures of the cars before the unveiling. As is policy, we called GM for comment. They were so honked off that they threatened to pull all their ads if we ran the story. Of course we ran it anyway, and they did pull their ads. For nine months. But we did not back down, and eventually they had to come back because they needed our demographic."

Prestbo adds an emphatic declaration: "we have a right to report and write. You can fight us if you want, and we will run your comments. But we will run the story."

The Crash of '87: "We did not see that one coming," recalls Prestbo. "At the time we had a Quotron for prices, and every time we punched in "InDu" for the Industrial Average the afternoon of October 19, it was down far and fast. We did not know where to turn. None of our usual sources would return our calls. Some of the lines were jammed, but we found out later that some people just took their phones off the hooks. But it was the *Journal* that got to the bottom of the story. From the initial bewilderment we recovered well by the end of the week. Daniel Hertzberg and James B. Stewart won the 1988 Pulitzer Prize for Explanatory Journalism for their coverage of the crash."

From 1964 to 1974, Prestbo worked in the Chicago bureau, one of 17 that the *Journal* had worldwide at the high point. "We had a man — and in those days they were all men — in St. Louis, Pittsburgh, Atlanta, Dallas," he recalls. "Internationally we had a bureau in Beirut, and other places that might seem unusual today." That global coverage has not been without cost. Daniel Pearl was South Asia bureau chief for the *Journal,* based in Mumbai, when he was kidnapped and murdered by militants while on assignment in Pakistan in 2002.

That far-flung network represented the evolution of the paper from a daily business publication to a full-fledged major city morning paper. "By the time I joined the provincial days were gone," says Prestbo. "Those ended in the 1950s. By the mid '60s we had become a newspaper with international appeal."

Prestbo adds that there were two reciprocal trends taking place at the time that drove the evolution of the *Journal.* "Our traditional readers in business and finance began to enjoy reading the *Journal* for coverage of all the news," he says. That trend has continued to this day with weekend sections on Fridays and coverage of travel and recreation, luxury goods and softer style topics. The other trend was the mirror image: non-traditional readers started to turn to the *Journal* as a straight morning paper.

Baker is particularly proud of the long form feature stories and continuing coverage that has been cultivated at the *Journal.* "There has been really extraordinary reporting on the ground of the war in Syria. Our team there has really done that in more depth and in better detail than anyone else. In our core coverage of finance and economics, we broke all the major stories about the [tapering of stimulus by bond-buying] and nomination and confirmation of Janet Yellen [as Fed chair]."

To deliver that reporting the *Journal* has relied upon many journalists and editors; Baker notes a few that he knows or knew personally. "Bob Bartley was editorial page editor and was a very strong voice for the paper and in the country during the Reagan years. Mike Miller, senior deputy managing editor, has handled features that have had an extraordinary impact. I also credit my predecessor Robert Thomson. I worked with him also at the *Times* and the *FT.* He built out and broadened this paper while retaining its core mission. Jim Browning, our markets editor, has done some fine analysis, as has Jason Zweig. Jerry Seib, our Washington bureau chief is a rare figure in that town. He fits in, but still writes with real authority." [Jason Zweig sits on the *Financial History* editorial board. –ed]

In his time in the financial press Baker has had the chance to interview and work with leading figures in business and finance. He is drawn to complex characters. "Steve Jobs was a famously difficult personality, but clearly an innovative genius. Similarly Ben Bernanke, I saw a lot of him. He was justifiably criticized over some things but still a leading figure in public policy. In the financial sphere Jamie Dimon, the CEO of JPMorgan Chase, has shaped Wall Street to a remarkable degree, though not without his critics too. Globally Angela Merkel, chancellor of Germany, has extraordinary reach and power. And I would include Robert Murdock. I have seen a lot of him too over the last few years. People worry about the future of journalism, but I can report that he is deeply committed to it."

Prestbo underscores the deep focus on elemental financial reporting: "My initial training as a reporter was months and months of earnings reports and dividend announcements. We used to print balance sheets and income statements in agate type (six-point type, the same as still used in many papers for sports box scores)."

The first mistake Prestbo made that required a correction befell him when he took a dividend over the phone. "I did not know what a record date was, so I got it wrong. Reporters at any level were severely reprimanded for any errors. The feeling on staff was that we were the publication of record. A lot of investors made their decisions based on what was in the *Journal.* People were relying on us, so we had to have everything correct to the last digit."

After his decade in the Chicago bureau, Prestbo moved to New York to join the Page One editorial staff, then worked on the commodities desk, then moved to Cleveland as bureau chief. Far from being an edge-of-the-empire garrison post, Prestbo states "those were four good years in Cleveland. I enjoyed being bureau chief."

The late '70s and early '80s were the incipient years for what today is the technology revolution. The *Journal* has poured out oceans of ink covering hardware and software businesses and leaders, but the publication was also an early adopter itself. And just as the paper reports on entrepreneurs, it also has created internal opportunities. One of those lured Prestbo back east from Cleveland. He took the post of editorial vice president for Dow Jones Radio 2, based in South Brunswick, NJ.

"At the time we called it interactive radio, but I like to think of it as an early version of the customized news streams that many people get today on their mobile devices," says Prestbo. "Subscribers had specially-equipped radios. They would call in and use their telephone touch-tone keypads — very high tech — to code in the news that was of interest to them."

The radio signals would have the codes embedded, so that subscribers' radios would turn on automatically, play the news the subscriber had requested such as anything about aviation, or grain futures, and then turn off again.

"It didn't work," says Prestbo. "The technology worked, but people did not like being interrupted. They were not ready to receive the news." The service was revamped to something called DowPhone, where subscribers could call in and enter the codes for the news they wanted. The staff was reduced, and Prestbo went back to the *Journal.* He was markets editor until moving over to Dow Jones Indexes in 1996; he retired from that group as executive director in 2012 and is now a lecturer with the Rutgers University Business School in Newark, NJ. $

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For more on the history of Dow Jones and *The Wall Street Journal,* see *The Market's Measure* by John Prestbo (Dow Jones & Company, 1999).

KEYNES'S WAY TO WEALTH

The Great Economist's Place in Financial History

By John F. Wasik

Although he is known worldwide for his economic theories and involvement in the influential Bloomsbury Group, John Maynard Keynes is much less known for his role in creating some enduring forms of investment management. Unlike many investors who buy high and sell low, Keynes learned from his mistakes and near financial ruin. He was able to move on, reach new conclusions about how to regard market movements and earn a place in the pantheon of great investors that include Benjamin Graham, Warren Buffett and George Soros.

It's no small stretch to say that Keynes was also the godfather of behavioral economics and value investing at a time when such things had little or no currency. It was only after going through thousands of brokerage account statements, ledgers, shareholder letters and portfolio summaries that Keynes's investment personality emerged.

Early Investments

By 1910 Keynes's growing interest in markets, investing and speculation were evident. In his lecture notes, a curious Keynes who at the time had little direct engagement in investing, exhibited a yearning to explore the subject. In his 1910 lecture on the stock market, he calls it "essentially a practical subject, which cannot properly be taught by book or lecture."

According to economist Professor Victoria Chick, Keynes "loved gambling and was always one to get involved in a card game." But it was a penchant for market speculation and his friendship with stockbroker Oswald Falk that propelled Keynes to explore the markets just before World War I.

His biographer, Lord Skidelsky, said he first saw evidence of Keynes's serious interest in investing before 1910, when "like (George) Soros, I think he used the financial markets to test his theory of probability." Keynes had begun work on a book on probability — published in 1921 as *A Treatise on Probability* — prior to the war.

Before World War I, Keynes was mostly unchastened in the stock market. In the absence of inherited wealth — and because lecturing at Cambridge didn't pay much at the time — he was dependent upon allowances from his father (a Cambridge don and administrator), his mentor economist Alfred Marshall and tutoring fees. Although he managed to accumulate money from birthdays and academic prizes in a "special fund" started in 1905, he didn't start investing in earnest until 1914, according to the editor of his papers, Donald Moggridge. "By 1911, he was not only buying additional shares, but also making switches and helping manage certain family trust funds," Moggridge discovered.

Using his knowledge of international finance, Keynes took to the currency markets with abandon. Floating currencies, which had been fixed before 1914, were notoriously volatile at the time, but Keynes thought he had the advantage of "superior knowledge." Believing that post-war inflation would hurt the values of the French franc, German reichsmark and Italian lira (which all existed until the time of the Euro Zone integration), Keynes shorted those currencies. This transaction made money if the currencies dropped in value relative to other, stronger currencies such as the British pound or US dollar. He went long on the Indian rupee, Norwegian and Danish kroner and dollar.

"He wanted to make money in a hurry in the 1920s," Skidelsky said, "and thought gambling on currencies (when currencies were floating in the early 1920s) was the way to do it."

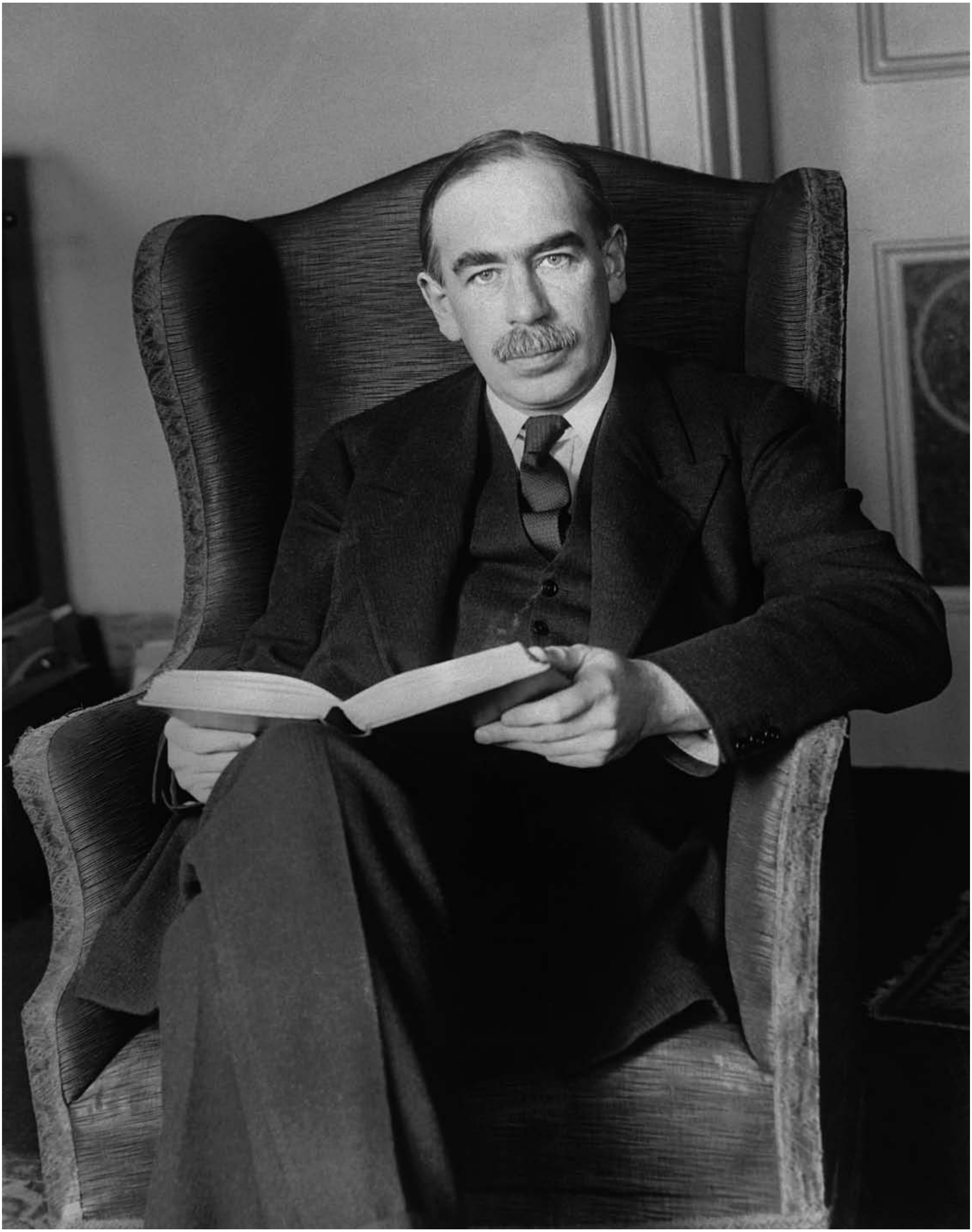
Along with Falk, his brother Geoffrey and Bloomsbury friends, Keynes set up an investing syndicate in 1920, which many financial historians claim was one of the first hedge funds. Rather than managing money for preservation of capital or yield, Keynes was speculating, pure and simple. At first, his strategy paid off, netting $30,000 for his investors in the first few months.

By April 1920, notes Liaquat Ahamed in *Lords of Finance*, Keynes made an additional $80,000, which was astounding considering that most of Europe was essentially broke from the war. Then something unexpected happened: "Suddenly, in the space of four weeks, a spasm of optimism about Germany drove the declining European currencies back up, wiping out their entire capital."

Embarrassed, though willing to get back on the speculation horse to make up the losses he suffered for his friends and family, Keynes re-invested in currencies following his 1920 shellacking. It also helped that he was staked by his father and wealthy investors, who had unwavering confidence in Keynes.

The Roaring Twenties

As a trader who believed that he could profit from the impact of supply and demand curves, Keynes became enraptured with the idea of commodities trading in the 1920s. Europe clearly needed every kind of commodity to rebuild after the Great War. Prices generally followed the demand. There were opportunities for astute speculators, and Keynes started researching and writing about



Legendary economist John Maynard Keynes was also a successful long-term investor.

commodities in the early 1920s for the London and Cambridge Economic Service and *Manchester Guardian*.

How did Keynes do overall during the 1920s? While it's difficult to tell because he traded so many contracts in the 1920s, Skidelsky found that in 1927 his net assets totaled some $3.4 million (in today's dollars). But everything in the world's markets began to change in 1928, when prices began to drop and he was still long in rubber, wheat, cotton and tin. After the Crash of 1929, he would eventually lose some 80% of his net worth, forcing him to put some of his paintings on the market (he ended up not selling them).

By the end of the decade, Keynes's foray into commodities ended much the same way the 1920s began (with currency losses), only worse. He was on the wrong side of most of his trades when demand collapsed. By 1930, after Wall Street crashed and the world plunged into the Great Depression, wholesale prices had plummeted 20%. Many commodities — cotton, wool, silk, sugar, rubber and metals — took a 50% hit.

The Great Depression and World War II

Having lost the bulk of two fortunes, Keynes re-oriented his thinking about trying to predict market movements. If one couldn't rely upon a mountain of data analysis and speculative insights on supply and demand, then what was left? As he concluded in his 1936 masterpiece, *The General Theory of Employment, Interest and Money,* "animal spirits" were the forces behind market activity. They were hard to reckon with and impossible to predict, so he needed to adjust to this unpredictable current of irrationality.

As he began to step outside the bounds of classical economics, he was doubtless influenced by his investment failures. Instead of trying to anticipate the market, Keynes now focused on the *enterprise*, or intrinsic, value of what stocks were worth. He drastically reduced his commodity positions. Then he latched onto high-dividend stocks in the 1930s when most traders were out of the market. It was this contrarian view that launched Keynes as not only one of the first *value* investors, but a long-term investor who turned his back on short-term valuations and market trends. Even more remarkable was that Keynes stuck to his new investment theory during one of the worst decades for stocks in history.

More importantly, the results from this tumultuous period show Keynes's resilience and willingness to adapt to changing markets. Keep in mind that during the Great Depression, there were a series of recessions followed by stock market comebacks. Although Keynes wasn't able to avoid some of the largest sell-offs in 1930–31, 1938 and 1940, the Kings College Chest Fund had a winning streak from 1932 to 1937, a period in which US stock market losses ranged from 25–43% annually. Over those six years, large US companies lost money in three annual periods. Considering the time in which he was investing, Keynes showed either amazing skill or incredible luck.

Looking at the three worst recorded years for large US stocks (measured by total return since 1926) — 1931, 1937 and 2008 — Keynes did reasonably well (he was managing money during only two of them). He only lost about 25% in 1931 when American shares lost 43.3% and gained 8.5% in 1937, the year of a 35% loss in the US. He beat the UK market in 12 out of 18 years.

Much of Keynes's innovative style was fueled by his growing preference for stocks, although he contributed a plethora of insights and advances to institutional money management as well. David Chambers of the Cambridge Judge Business School and Elroy Dimson of the London Business School recently published a landmark study that showed that "Keynes's experience in managing the [King's College] endowment remains of great relevance today."

What's even more remarkable is that Keynes was not only managing money for King's College during his heyday, but also institutional funds for National Mutual Life Assurance Society (he was chairman from 1921 to 1938) and the Provincial Insurance Company (director from 1923 to his death) and personal funds for himself, friends and colleagues.

Keynes pivoted from his losing macro strategy in the 1920s, in which he underperformed indexes from 1926 through 1928, to a more bottom-up style thereafter. His outstanding performance reflects his modified style. He only fell behind market indexes once in the 1930s (1938 was his worst year, but it was also dismal in the US) and once in the 1940s. His Sharpe ratio and average performance were excellent as well.

Investment Innovator

Keynes's performance under fire during the 1930s and World War II (his street in London was literally bombed) inspired several generations of investors that followed. His dogged pursuit of value stocks, dividends, cash flow and future earnings established him as a durable "buy and hold" investor who was confident he would be rewarded in the long run.

After his death, the vindication of Keynes's portfolios proved that he deserved to be emulated. Although his estate was worth at least $22 million (in 2013 dollars) when he died, his contribution to the arts, modern economics and a more stable global economic climate is incalculable.

As an investor, he championed the merit of examining the "earning power" of stocks, looking deep into the ability of a business's ability to survive in a variety of economic conditions and the abandonment of market timing and speculation.

The larger message from Keynes's investment style is that if he saw value in a company, he ignored the short-term "noise" of the market and held onto a company he saw as a worthwhile enterprise. He was always looking ahead and didn't particularly like selling a stock. And if a stock paid dividends, that was icing on the cake.

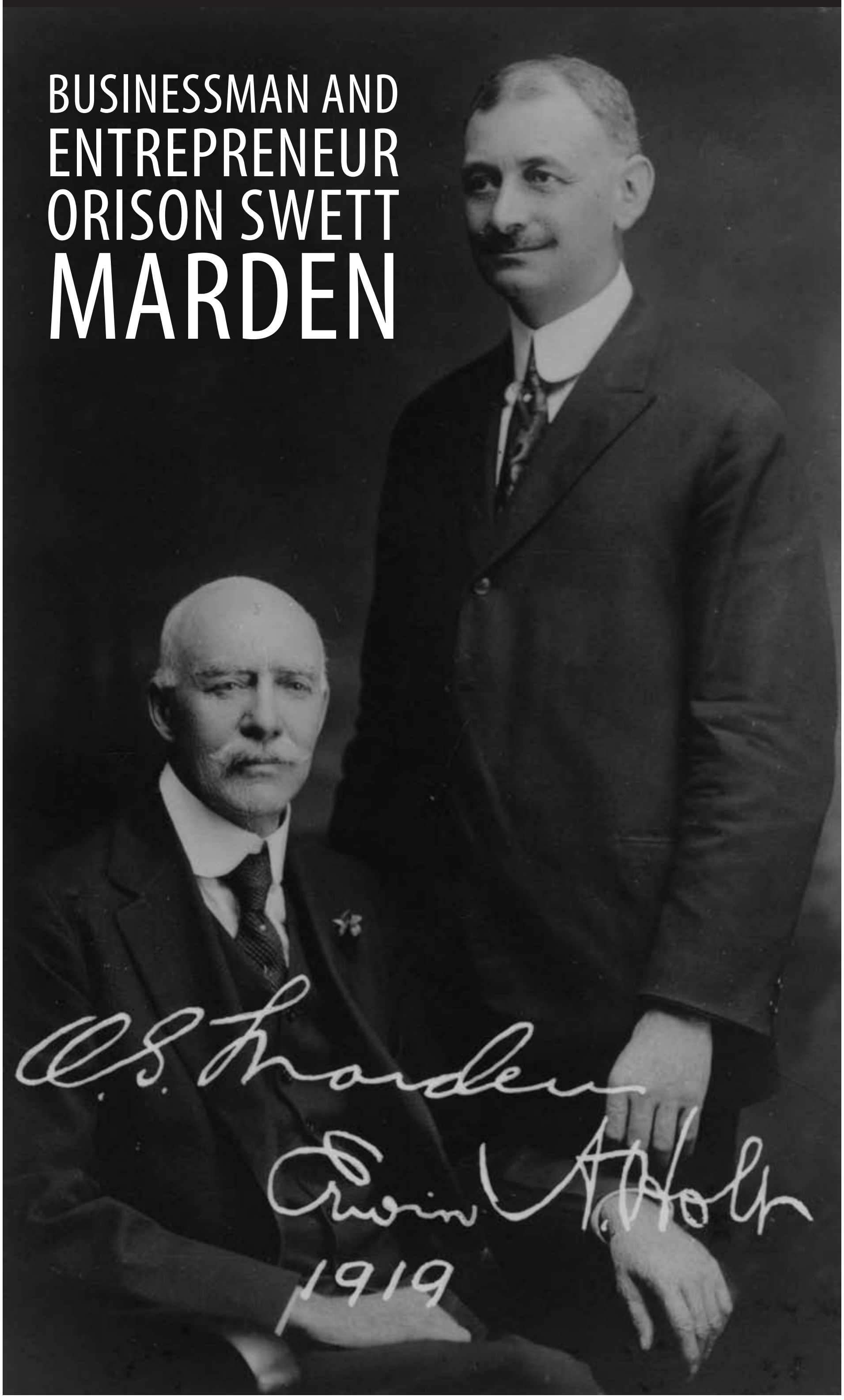
Even more significant is his recognition of "animal spirits" and the role that mass psychology plays in investing and markets. In doing so, he tackled one of the most elusive — and powerful — elements of markets, behavior that modern economists have not yet been fully able to understand, much less predict. $

John F. Wasik is the award-winning author of 14 books, a speaker, journalist and blogger. He writes a weekly investment column for Reuters and contributes to The New York Times, Forbes *and other publications. He lives in Grayslake, IL, and has spoken across the country, including at the Museum of American Finance.*

The article is excerpted from *Keynes's Way to Wealth: Timeless Investment Lessons from the Great Economist* (McGraw-Hill, 2013), by John F. Wasik.

Success Story

BUSINESSMAN AND ENTREPRENEUR ORISON SWETT MARDEN



Orison Swett Marden (seated) with textile executive Erwin Allen Holt, 1919.

By Julia Bricklin

On December 30, 1911, the National Post publishing house announced that *Success* magazine was a failure. The publication that for 12 years had inspired millions to persevere during times of financial crisis faced involuntary bankruptcy proceedings. Nonetheless, its founder, Orison Swett Marden, continued to sell millions of motivational books, most of which taught that "cheerfulness" and "strong optimism" were the key ingredients to a successful future.

Marden published his first book, *Pushing To the Front or, Success Under Difficulties*, in 1894. Among other encouraging platitudes, the book taught the basic lesson that "character is the poor man's capital." The author started writing *Pushing* during one of America's worst economic crises, the Depression of 1893, and it became one of the three best-selling guides on financial advice in the 19th century.

Given his humble beginnings and his bad luck, Marden's success at peddling success was remarkable. Born in New Hampshire in 1850, his mother died when he was three years old, leaving his father to raise three young children. Lewis Marden was strong and provided for the family as a farmer-huntsman; he hoped to provide an education and financial security for his children as well. Unfortunately, Mr. Marden accidentally sprang one of his deadfall bear traps and was crushed by a log. He narrowly escaped, but was disabled for the next four years and eventually died of his injuries.

Orison Swett Marden and his siblings went to live with their grandmother, who loved them but could not provide for them. Subsequently, the children were split up and, according to biographer Margaret Connolly, Marden was "bound out" by his guardian successively to five different families, in the backwoods of New Hampshire. According to her notes, all of these foster families treated him poorly. His experience in the home of the

family of a Baptist minister soured him forever on religious orthodoxy; the man beat and starved him during household sermons.

In his teens, after years of backbreaking manual labor, Marden begged his then-guardian, Herod Fifield, to let him attend Colby Academy, a preparatory school in New London. The Academy granted him permission for one semester; Fifield presumed he would find it too lofty and rigorous and return home. This almost happened, as Marden's sporadic schooling to that point had left him unprepared for a formal education.

A benefactor stepped in and gave him a few dollars, plus some work, to help him stay. In his biography, Marden remembered working odd jobs around the Academy, doing chores, sawing wood, milking cows, waiting the students' tables and washing dishes. He also recalled sawing cord wood in the forest some distance from the Academy and boarding in a small attic room, where he studied for hours each night.

Although Marden felt a sense of accomplishment by working his way through another few semesters, he couldn't graduate. His sight began to fail, probably as a result of childhood malnutrition, and he was so tired he often fell asleep doing his chores, some of which could be dangerous if one wasn't paying attention. He dropped out of the Academy at the end of the semester and spent the summer working in sawmills, lumberyards and farms. Still, he could not stop thinking about ways to earn a living around books instead of manual labor, and he found his first success in the form of a country school.

"His first efforts to get an appointment in a public school naturally met with failure, but undaunted, he started a school of his own," wrote Connolly. "Hiring an old shoe-shop, a one-room shack which stood over a brook, he drummed up 10 or 12 pupils and opened session. The schoolhouse was so rickety that, during recess, the pupils would improvise fish hooks with bent pins and fish in the brook beneath, through the holes in the floor!"

Cover of the June 1910 edition of *Success Magazine.*

Yale Collection of American Literature, Beinecke Rare Book and Manuscript Library

Marden took on the unruliest kids in the region and proved to be a disciplinarian, though one who was compassionate and encouraging. His reputation for keeping order spread, and the school board asked him to take the place of an intimidated teacher at Centre School, possibly in Rockingham County. Marden kept a calm head among this new class of rowdy boys, and despite having an arm in a sling from a work accident, managed to soundly thrash the ringleaders with birch switches in front of the class. He allegedly had no disruptions again. His biographer takes pains to point out that the teacher who resigned was a Dartmouth graduate, no doubt to underscore Marden's physical and mental triumph over a more privileged colleague.

Although Marden earned a good reputation as a teacher, he still had not received his own formal grade school degree. After a couple more semesters teaching, he took his $50 savings and headed back to Thornton Gore, thinking that he would receive some money from his father's estate, since he was now 21 years old. He was bitterly disappointed. Fifield told him there was virtually nothing left in the account.

Disheartened, Marden trudged onward to the New Hampton Institute, which then offered theological coursework but also a highly-rigorous liberal arts degree, similar to some junior colleges today. Again, he worked very hard — haying, lumbering and farming — to pay his way through school. Marden's better-financed classmates teased him, especially about his roughhewn appearance, but he eventually earned their respect by overcoming his fear of public speaking to such a degree that he became master orator of the student body.

Marden graduated from New Hampton at 23 years old — quite a bit older than most of his fellow classmates, and in precarious health from burning the candle at both ends for so long. He needed some sort of "finishing" degree that would let him start a career that did not require a lot of travel or physical demand, so he decided to become a minister and entered the Theological Seminary in Andover, MA. He later reflected that he also did this to attempt to reconcile his basic belief in Christianity with the "fire-and-brimstone" sermons by Elder Strong, the guardian who beat him mercilessly while preaching. He finished a year at the Seminary and

Photo courtesy of Buffalo County Historical Society

Marden's Midway Hotel in Kearney, NE, which burned to the ground in 1890.

felt sufficiently rested, but he wanted to continue on to a "real" four-year college. He applied to Boston University, and he entered as a sophomore in 1874.

Naturally, Marden still needed to work to earn his tuition, but at Boston he "hatched a plan" that was less physically, and more intellectually, intense than his previous jobs. He worked as a head waiter and manager of hotels during his summer breaks and decided he could bring this knowledge back to campus. He started what was called the "University Club" for professors and students, and he cleared a $7 profit each week. "I felt that I was getting up in the world pretty fast," Connolly quoted him as saying, "when I could earn so much money and still be in college!" For the rest of his life, Marden knew very few joys greater than the one he felt at overcoming financial difficulty.

In May of 1876, Philadelphia hosted a Centennial Exposition, a celebration of the signing of the Declaration of Independence. It was the country's first great exposition of its kind, and Marden was determined to see it. However, it meant giving up his summer work, and he could not afford to go long without earning money. He came up with an idea to do both simultaneously.

"With the assistance of four other college men, from Harvard and Boston University," said Marden, "I published a magazine called *The Centennial Eagle*. It gave me a really wonderful experience which I thoroughly enjoyed. As I had a pass to the grounds, there was an excellent opportunity to study the exposition, which I visited nearly every day during the vacation months." Marden earned some much-needed cash and also learned a little bit about the publishing business, which would benefit him later.

He graduated from Boston University in 1879 with at least two degrees, but still had not quite found fulfillment. By doubling-up on classes, he obtained a medical diploma from Harvard in 1881 and a law degree from Boston University in 1882. At the time, one could apply coursework completed for previous degrees.

Again, Marden did not seem to find his "calling" with law or medicine, but he did find tremendous satisfaction in promoting the Harvard University Club and was making $5,000 a year as manager of the Ocean View Hotel in Rhode Island. This, combined with his savings, allowed him to relax for the first time in his life, which he did by traveling all over Europe.

Once again, Marden became sick — this time with malaria and typhoid fever. He was forced to stay in a Florence hotel all winter and barely made it back to the United States in April 1883. He recovered sufficiently to deliver a series of lectures about circulation, hygiene and nutrition to Bostonians, but he shelved medicine for good by the summer of 1884.

By the mid-1880s, Marden had regained both his health and his insatiable work ethic. He was not only manager of the Ocean View, but also owner of the Manisses in the same place and part-owner of Fort George Island, FL, which he helped make into a popular tourist resort (for one "brilliant season," and then it burned

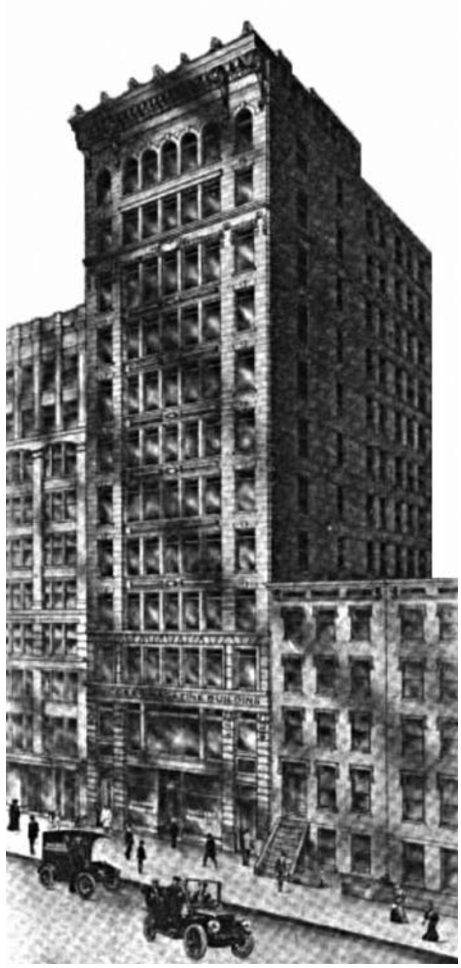
to the ground when a caretaker's stove fell over). It was only partially insured, so Marden took his loss and his pride and looked to the West. He sold his interests in some of his New England establishments and purchased the Midway Hotel in Kearney, NE — a booming town because its railroad hubs connected easterly and westerly travelers.

Unfortunately, like so many establishments of this era, the Midway burned to the ground in 1890, and Marden was mildly injured. Again, the hotel was only partially insured, so the entrepreneur took heavy losses. While he was able to mitigate his financial setback over the gains he had made in other area hotels in Nebraska and South Dakota, Marden's biggest disappointment was losing several manuscripts totaling over 5,000 pages.

"The fruit of all the spare time he had been able to snatch from nearly 15 crowded years of business life" had literally gone up in smoke. According to Connolly, Marden mourned his losses briefly and then started reconstructing them.

Apparently, Marden had been such a good neighbor to Kearney residents — contributing to local causes and even throwing open hotel doors at Thanksgiving to the homeless — that banks and individuals alike donated to a fund to rebuild the hotel and induce Marden to stay, which he did, aside from a brief stint operating a hotel near the Chicago World's Fair in 1893. But the Depression had taken firm hold of the country at this point, and no one was traveling to Kearney to do business. Hotel reservations dried up, and Marden could not pay the long-term lease on the property. In return for turning over the building and its furnishings, he was allowed to leave the city with no lien, and he found himself at a crossroads. Should he keep working in the hotel business, or should he become poor once again and continue writing full-time? He decided on the latter.

Marden had barely established himself in a cheap boarding room back in Boston when he received several telegraphs from men representing Claus Spreckels, the sugar magnate, who wanted him to manage a property in La Jolla, CA, which would become the Hotel del Coronado. He turned the offers away and continued writing. In a short time, wrote Connolly, he had completed the re-writing of *Pushing to the Front* and had also finished the



Success Magazine building at which Marden worked until the magazine shuttered for the first time in 1911.

manuscript of a second book, *Architects of Fate*. According to Marden, he submitted a copy of *Pushing* to publishing house Houghton-Mifflin & Co. too late for consideration for 1894's slate of books. Much to his surprise, editor Horace E. Scudder (also then editor of the *Atlantic Monthly*) took a chapter home and decided to rush the book onto shelves December of that year.

Pushing to the Front was a best-seller from the day of its publication, according to Connolly, and by the time she published her notes on Marden in 1925, 250 editions of *Pushing* had been published in America. Marden wrote at least 14 more books and hundreds of articles, many of them from New York City, where he served as a major supporter and officer of a spiritualist organization called "New Thought." This group espoused the idea that man — rather than wait for extraordinary opportunities — ought to seize common occasions and make them great.

Still, Marden is best known as the founder of *Success* magazine. Even in the midst of arguably the worst financial crisis America had known in nearly a century, it sold so many copies that it outgrew its quarters in Cooper Union and took over an entire floor of the University Building in Washington Square. Zona Gale, in an article in *The Critic*, covering new editors, said: "To name a magazine *Success* was to account for it. There is magic in the name, just as there was found to be when Samuel Smiles changed his unknown book with an abstruse title into *Self-Help*, and immediately found it in every bookshop."

Richard Weiss, author of *The American Myth of Success*, writes that Marden's "success ideology" gave belief in the individual's power for self-direction a new lease on life by providing it with a rationale viable in the context of an industrialized society. It was probably inevitable, then, that some of the magazine's features might have been construed as attacks on "big business." One of Marden's biggest creditors took offense and called in all his lines of credit, leaving the magazine unable to pay printers and paper men.

Just as 20 years before he had started to re-write *Pushing to the Front* while the first manuscript lay in ashes in the ruins of his hotel, he began, in his old age, to make plans for a new *Success*. In 1917, a Chicago manufacturer who had long admired Marden's character and perseverance offered to underwrite the launch of a new version. Despite its sometimes "galling optimism" against the backdrop of World War I, Americans bought the magazine in droves, enjoying its editorials, short fiction, personality sketches and, of course, success stories.

Marden died in 1924 — not wealthy, but comfortable and content with the knowledge that he had taught millions that "stick-to-it-iveness" would take them as far as they wished to go. $

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A Crisis of Interpretation

PRECURSOR TO THE PANIC OF 1837

By Jessica M. Lepler

Some stories start with a crash. Others, like this one, end with one. Instead of a crash, this story starts with the gentle landing of a very tired pigeon.

Rumor has it that on August 2, 1836, a pigeon landed south of London. Although few birds play significant roles in history, this particular pigeon, whose existence has never been irrefutably confirmed but whose legend endures, carried a note under its wing that was quite valuable to those who could interpret it. With three short words, "il est mort," the message on the thin scrap of paper set off "the variations of all stocks & their wild fluctuations," according to a prominent financier. Within six months, markets in the US and Great Britain faced a financial crisis that would ultimately lead to a global economic depression, the worst of many in the 19th century.

Was the pigeon a portent? Many Londoners seemed to think so. The little bird's cargo, the message "he is dead," dashed their hopes that the world's most skillful financial interpreter, Nathan Mayer Rothschild, would return to the city. Over the previous three decades, Rothschild had become the world's wealthiest man by profitably interpreting the latest intelligence. While he attended his son's wedding in Hamburg, news from across the Atlantic had created a "pressure," what one political economist defined as "a difficulty of borrowing money and the necessity of paying a high price for it."

The pigeon's note intensified the tight credit market because it confirmed that the bankers in London were left with only their own gloomy predictions of what the news from the American bank war would mean for their own battle-worn financial system. Upon Rothschild's death, and without his potentially positive reinterpretation, no semiotic rescue would avoid the financial crisis many Londoners predicted.

Not all merchants and bankers, however, recognized the same signs. While the bird glided on the air currents over the English Channel, transatlantic winds propelled Samuel Hermann toward London. When he arrived in the city, the New Orleanian cotton factor saw only potential. His cotton, growing in fields throughout the American southwest, would soon flow down the Mississippi and across the Atlantic to be converted into cash. High prices and abundant crops signaled a successful future, if he could find enough credit to finance the growing trade in this commodity. He was not alone in this prediction; he carried with him letters from other Americans so convinced of a bright future that they were willing to "guarantee" his business. Confident in his interpretation, he paid no attention to prophesy of panic.

London's bankers, however, were loath to extend credit lines when they saw signs of trouble. And the more they looked for warnings of eminent disaster, the more they found.

Is there any difference between an omen and an economic indicator besides the expertise of the prophet? Even today, markets rely on interpreters who through experience, technology or luck claim the ability to predict the future. In 1836, authority for economic predictions had not yet become the province of professional economists employing statistical models. Instead, financiers tried to predict the economic future from a wide variety of intelligence that was itself the product of interpretation. Economic theorists have only recently begun to challenge the principle that all participants in a market have the same information and that they use this information to reach the same rational conclusions. But in 1836, Londoners knew that not all interpretations were created equal; more to the point, not all interpreters reached the same conclusions.

Employing intelligence about the American bank war as evidence for their own political conflict over their national financial system, English investors interpreted American political diatribe as signs of a coming crisis. They initiated conservative policies designed to protect against a panic. These policies started the pressure of 1836, a transatlantic contraction of credit. The effects of this credit crisis convinced Americans that their balance sheets might not be strong enough to sustain the pressure of British doubt.

By the end of the year, English pessimism had defeated American optimism, but it was too late for businesses that had already gambled on continued flush times. By 1837, the precautious policies of investors created the panic they were designed to prevent.

The British Debate Over Joint-Stock Banking

On May 12, 1836, members of Parliament turned the "earnest attention of the Legislature" to the "system of joint-stock banking [that] has grown up already of great magnitude, which is daily extending its ramifications, and which promises very

shortly to comprehend every portion of the kingdom, and every class of its population within the sphere of its operation."

Supporters of joint-stock banks encouraged the inquiry because this "time of prosperity" could validate their theoretical model of bank competition. Whether in favor of competition or monopoly, the real debate focused on whether the inquiry should be public. Supporters argued among themselves about whether a committee sworn to secrecy ought to perform the investigation for fear that "matters might be incautiously divulged which ought not to be published," or whether "the public were entitled to know everything respecting these banks."

In the end, a private committee would gather confidential information from the banks, but newspapers throughout Britain, and eventually even in the US, reprinted the Parliamentary record. As this discussion referenced the "sinister objects" and "bad consequences arising from improper speculation" by the joint-stock banks, the Bank of England (BOE) had won the Parliamentary skirmish regardless of the committee's findings. The public would read of these threats to the British economy and then starve for information.

Without access to official facts, writers searched for information whether they wanted to present joint-stock banks as responsible for "the great works which enrich and adorn our country," or as the backers of an "absurd mania" for "romantic and outrageous" companies. One pamphleteer bemoaned, "the public have no data from which they can form any probable conjecture." He bristled, "they are left totally in the dark."

On the cheaply-printed pages of pamphlets and periodicals, theories of political economy developed. "The paucity of facts is one cause why we have so many theories," suggested James W. Gilbart, the head of the first joint-stock bank in London.

Inspired to write a guide to the theoretical debate, he suggested, "Had we more ample information there would be less room for speculations, and we should arrive at certain knowledge instead of being wafted about by fluctuating theories." Curious English readers in the summer of 1836 found themselves not only adrift on the hot air of rumor and opinion but also lacking skills to process the available "data."

Imperfect information not only left the public in the dark but also kept bankers from accurately assessing one another.

News of the death of one of the world's most skillful financial interpreters, Nathan Mayer Rothschild (shown here), spurred a sense of unease among investors in London in 1836.

Unable to acquire perfect information about their financial system, English writers turned to the next best thing, evidence of a similar system.

Re-Interpreting News from America

Voluminous accounts of American banking arrived on weekly packet ships from the US. Throughout the American bank war, the *London Times*, a pro-BOE newspaper that even a joint-stock banker recognized as "the leading and influential press," published brief summaries of American financial issues. But during May 1836, it re-interpreted these accounts as evidence of a general failure of decentralized finance.

The editor of the *Times* marketed his paper by vowing "to put capitalists and men of business in other places as nearly as possible on the same footing with them in the knowledge of what is actually going on in the City." With this agenda in mind, the *Times* employed the American example of bank competition to frighten readers, near and far, who might be in a position to sway English policy in favor of the BOE.

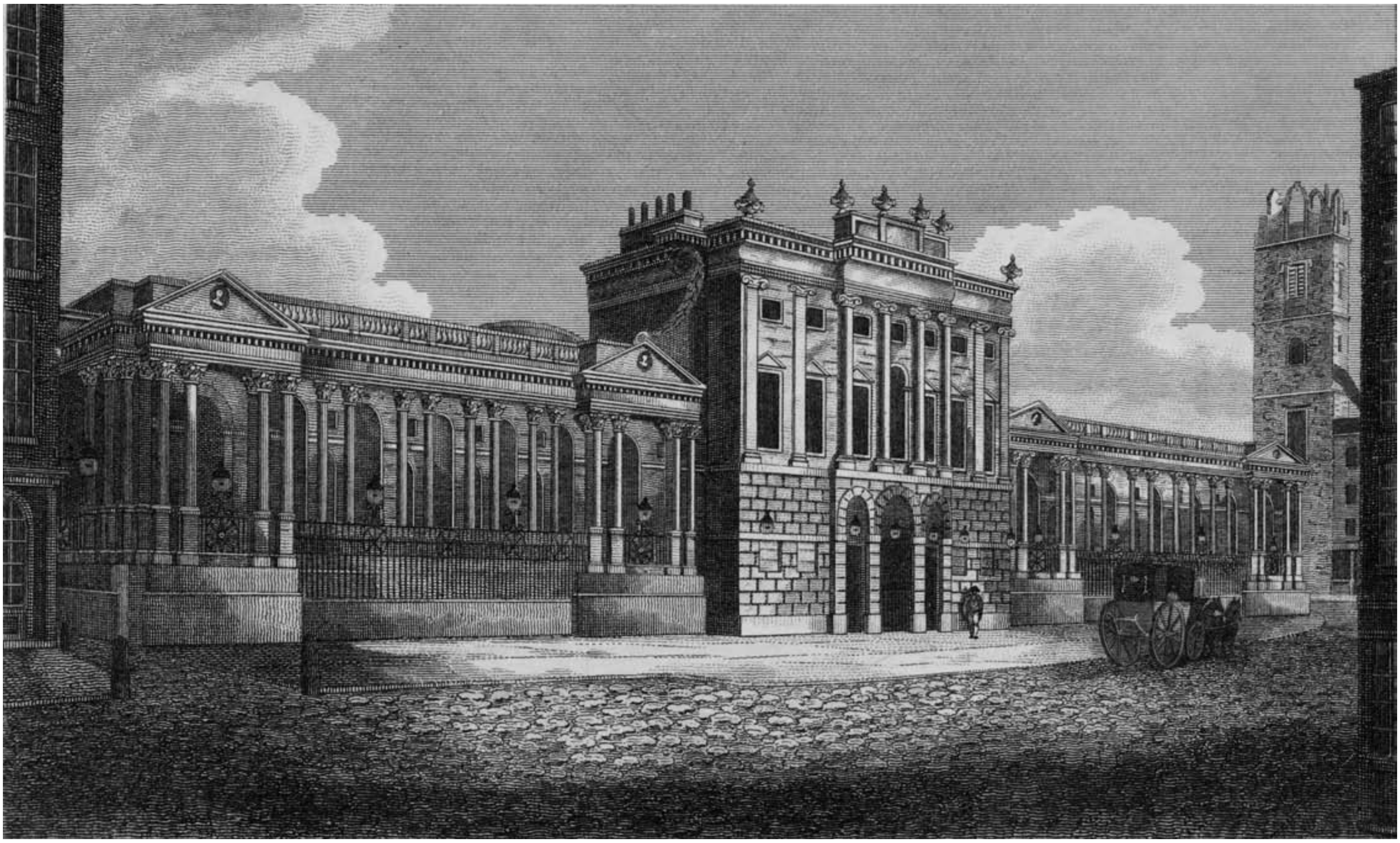
Ten days before Parliament turned to the currency question, the *Times* discussed the "very serious mischief" of the joint-stock banks, and referencing Biddle's Panic, pointed to the "close resemblance to the situation of the United States two years ago, when a panic was brought on by the sudden contraction of their issues by the United States Bank."

Panic was a horrifying prospect for all financiers because it suggested that an otherwise stable financial system would be subjected to the doubts of politically-motivated or irrational actors who might cause real harm to honestly-operated businesses. The most recent English panic, in 1825, resulted in the end of the BOE's monopoly and many business failures.

The *Times* published this analogy, and papers throughout Great Britain reprinted the article to encourage an investigation into English joint-stock banks; it was not intended as a report on American financial instability.

After the Parliamentary debate, allusions to American banking as evidence of the deleterious effects of joint-stock banking increased. For weeks, the *Times* reprinted articles from both sides of America's partisan press that shared a condemnation of the American banking system.

Critiquing President Jackson's policies, one column argued that "the country is turned into a gambling-house for the benefit of legislative favourites" and that



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Engraving of the Bank of England as it was in the early 19th century.

the American people were "delivered up, fettered and weaponless, to the tender mercies of a set of incorporated banks."

In thinly-veiled allusions to English joint-stock banks, the *Times* printed articles about hard money that described the American "paper mania"; banks that ought to face "a destructive run upon them in consequence of their extravagant issues"; and a comparison of the "power of coining paper money" to "lotteries, gambling and forgery," or in other words, "the greatest evil of modern times."

Likening competition in currency to an infection, the *Times* referred to a "currency distemper which rages so violently all over the United States." Another article in the *Times* hinted at the remedy: Jacksonian aspirations to return to the "safe constitutional metallic currency." Gold would heal banks bleeding paper money.

At first, the discussion in the London press of the stability of gold, like the instability of paper, was intended to influence British banking regulation. Within a few weeks, the practical implications of American desire for gold transformed from example in an internal British policy debate to a new threat to the British system. On May 23, 1836, the *Times* reprinted a report from a New York paper that "A large house of brokers, connected particularly with foreign business, yesterday made insurance on a heavy amount of specie soon to arrive from England."

The *Newcastle Courant* reprinted two short articles. One announced that "a very considerable quantity of gold has been exported within the last three or four weeks, and the exportation is going on." The other suggested a potential destination for the gold by republishing figures from the Jacksonian *Washington Globe* indicating that the US Mint had "issued upwards of six millions of dollars of new gold coin."

The *Brighton Patriot* reported that "Gold continues to leave the country; the government of the United States…uses our sovereigns as if it were their own." Gold, of course, was not the only commodity traveling westward.

Liverpool newspapers reported that only a quarter of the exports bound for the US could fit on the usual packet ships. The *Derby Mercury*, *Hull Packet* and *Newcastle Courant* reprinted this news, which suggested to English readers that "overtrading," or an imbalance of trade, could be added to the list of troubles with America. As manufacturers and merchants relied on country banks for financing, all of these indictments of American excess reaffirmed the charge of "speculation" by joint-stock banks. Readers who believed that America's financial chaos merely justified an inquiry into Britain's own banking experiments now envisioned more material concerns.

By printing accounts of American banking in order to fight their own bank war, supporters of the BOE brought the instability of the American financial system to the attention of its investors. As one letter to the editor attested, "The statements in your paper [have] excited much alarm in the minds of persons holding American stocks and engaged in the American trade." While Americans read the newspaper accounts of fiscal policy debates through partisan eyes, Londoners

saw primarily the potential risks of American commerce.

Had too much British specie been traded to America in exchange for paper that promised high interest rates but would not retain its value? Given the flawed statistical record, even economic historians with modern technology have not produced a clear answer. Regardless of whether the Specie Circular, Deposit Act or any other policy actually spawned an unsafe expansion of American banking and commerce, this possibility haunted London investors.

By mid-June, the *Times* reported, "Great interest seems to be raised in the City by the discussions on American affairs, but many affect to doubt whether trading and banking have been carried on to the extent described, and ask for further evidence on the subject."

A *Times* reader alerted the press that it had "derived [its] facts, as well as the colouring of them, from a source much to be distrusted, being tainted with party politics." Rather than turning to "the authority of the best private letters" as an alternative to the press, the *Times* turned to the US Congress, the pulpit of American party politics, for more "facts."

Interpreting the "Facts"

The *Times* made an awkward choice. On April 27, 1836, New York Congressman C. C. Cambreleng, a former merchant and hard-money Democrat who chaired the House Ways and Means Committee, had delivered a speech in Congress designed to forestall Whig plans to distribute the federal surplus. Although the bill's stated goal was buttressing the American military defenses, the congressman, like everyone who debated the bill, used only a fraction of his time to discuss the possibilities of war with Native Americans, France, Great Britain or Mexico. Instead, he launched a volley of numerical artillery against the nation's banks.

Predicting that the "wild and uncalculating spirit of speculation" that had produced the federal government's surplus could not continue in perpetuity, he cited shocking statistics as "evidences of sudden and extraordinary overtrading" and of "the vast and sudden expansion of the business of all the banks in the Union." Cambreleng's adjectives conveyed his true fear: the reach of international trade was accelerating too fast over too vast a territory. Nevertheless, his speech was designed to frighten his fellow legislators and the wider audience of national voters into fearing only the distribution of the surplus. It was not designed for London.

Americans ignored Cambreleng's speech. The numbers he supplied should have been frightening to anyone who understood trade. But in 1836, the "science" of political economy had not yet focused on data and models. Besides, even if Americans wanted to use the numbers, those numbers were probably wrong. For example, the *New York Journal of Commerce*, from one day to the next, misprinted one of Cambreleng's statistics; the difference between the two figures was more than $1 million.

Errors notwithstanding, Americans were fascinated with numeracy but far from expert in manipulating statistics. In American colleges, the discipline of political economy, if it was taught at all, was the province of experts in moral philosophy, theologians or other thinkers with little contact with the realities of trade. Opposite to idealist political economists, American merchants and bankers who had practical experience with finance were often too busy managing their daily enterprises to spend time theorizing.

Although officials marshaled numbers in support of policy, members of Congress tailored their speeches to economically uneducated voters who would read them in the nation's partisan presses. If the politicians did not edit out the numbers, newspapers did. After listening to Cambreleng's hour-long speech, the correspondent of the *New York Journal of Commerce* provided the newspaper with only the most general of figures; this paper's readers would not learn the specific data the congressman cited for over-trading or banking because the press printed only the numbers for military expenditures.

Besides all of these practical problems, the country was not receptive to Cambreleng's gloom. In flush times, who paid attention to a croaker predicting the end was nigh? For all these reasons, Cambreleng's speech faded into the debate that would ultimately be decided not by economic calculations, but along party lines. After years of the bank war, American readers were inured to the politically-motivated, dire predictions for the American financial system published by Whigs and Democrats alike.

Cambreleng's speech, however, found an eager audience in Britain. Ignoring the partisan motives of the text, the editor of the *Times* asserted that Cambreleng's words and numbers had "greater importance" in London because they demanded a re-evaluation of the security of the entire American financial system rather than just the policy of surplus distribution.

In statistic-starved England, Cambreleng's data provided evidence that democratized banking and decentralized control of the currency had brought this important trade partner and potential test case of the joint-stock system to the brink of crisis. Given the sums British investors had risked on American ventures, the *Times* editor believed that the figures cited by Cambreleng needed "to be made known and carefully watched in this country."

He expressed the hope that the "utility" of publishing Cambreleng's statistics would not be to cause "very extensive mischief," but rather "that it may possibly, by exciting similar caution on the other side, avert altogether the otherwise inevitable consequences."

By mid-June, the *Times* concluded that "the rate at which the increase of bank capital is going on in the US is quite portentous, and must accelerate the crisis in that country for which all reflecting men are now prepared."

News of American financial instability generated by the American bank war was no longer merely ammunition in the English bank war; negative interpretations of American finance began to influence investors' confidence in the financial system itself. Thus the stage was set for a transatlantic financial crisis the following year. $

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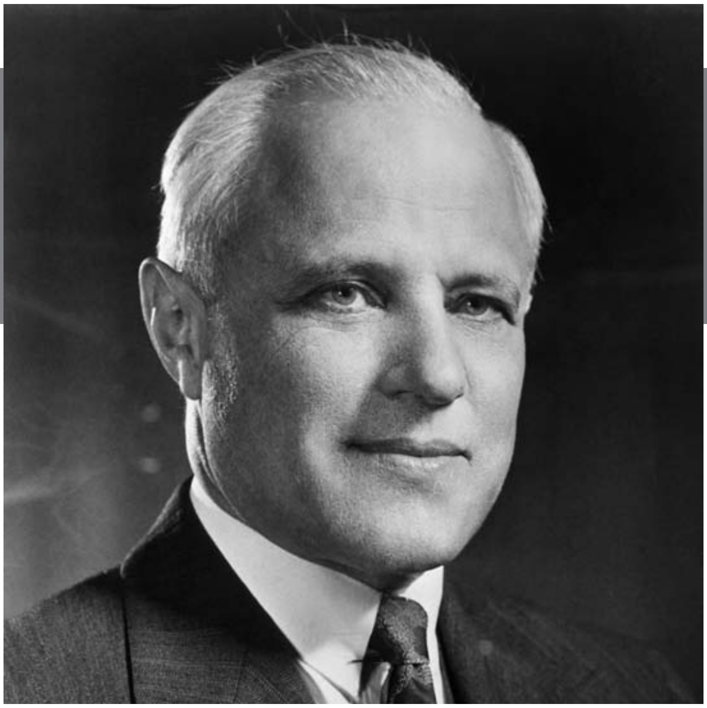
PROFESSIONALIZING VENTURE CAPITAL



Karl Compton, Georges Doriot and Ralph Flanders (shown left to right) were the key drivers of ARD, the nation's first professional venture capital association.

By Michael A. Martorelli

During the first two decades of the 20th century, risk-oriented angel investors financed new companies such as Ford Motor, Goodyear Tire and Rubber, and the Victor Talking Machine Company. By the late 1920s, however, the wealthy individuals and families who had been helping inventors obtain funding for their companies had begun shifting their investment dollars to publicly-traded firms. Thanks to the booming stock market, they were able to generate large returns without taking on the risks associated with start-up companies.

Funding Through Prosperity and Depression

The 1929 stock market crash and subsequent depression caused most individuals to cease investing altogether. Some members of wealthy families, such as the Guggenheims, Rockefellers and Whitneys, continued to make selective investments in emerging companies such as Western Air Lines, McDonnell Aircraft and Pioneer Pictures.

But the business of providing capital for speculative start-ups was curbed by the imposition of higher tax rates on the broad investor class, greater disclosure requirements for new issuers of securities and an excess profits tax that disproportionately penalized young companies. Further, state governments passed laws creating "legal lists" of potential investments, and otherwise restricted the speculative activities of institutions such as banks and insurance companies. Financial support for early stage companies declined sharply.

In the late 1930s, several economic thinkers began lamenting the shortage of risk capital for new ventures. E.I. du Pont de Nemours President Lammont Du Pont noted the need for "(ad)venture capital" in testimony before a Senate Committee in 1938. The following year saw several related developments.

- A report from the New Products Subcommittee of the New England Council noted not only the need for venture capital to help create new firms, but also the importance of professionalizing the process of investing in such companies.
- A writer in the *Harvard Business Review* suggested the creation of local Capital Trusts — institutions authorized to gather funds from local banks, and then oversee the investment of those funds in local small businesses.
- The head of the brokerage firm Dean Witter called for more venture capital to finance businesses in the experimental stage, although he did not specify the sources of those new funds.
- The Roosevelt administration proposed the creation of a Federal Industrial Loan Corporation to make equity investments in small businesses.

Wartime Assistance

As far back as 1932, the federal government had indicated its willingness to help small businesses struggling to cope with the worsening economic conditions. The Reconstruction Finance Corporation (RFC) made loans to both large and small companies, and sometimes purchased their newly-issued preferred stock. However, it did not provide financing for emerging firms.

In 1941, the federal government confirmed its interest in helping small businesses by establishing a Small Business Unit in the Department of Commerce's Bureau of Foreign and Domestic Commerce. In 1942, the War Production Board (WPB) created the Smaller War Plants Corporation (SWPC) sub-unit to deal specifically with small businesses. (Such firms' earlier efforts to obtain a greater share of the explosion in contracts to manufacture munitions, electronics and other war supplies had not been particularly successful.) The SWPC did indeed help small manufacturers obtain valuable production contracts; it also made loans to establish or expand their facilities. By the end of 1945, it had helped small firms obtain more than $6 billion worth of contracts and loaned them almost $500 million. As was the case

with the RFC, however, that agency was not empowered by Congress to provide financing for *new* companies.

During World War II, the federal government financed the development of synthetic rubber, the atom bomb and dozens of innovations in machinery, electronics and aviation. It did not support the formation of new companies. However, it did funnel money for research through several academic institutions, and it established licensing relationships with businesses to manufacture the products of that research. People directly involved with these efforts saw the post-war potential for the formation of many new companies to commercialize even more of that research; they also envisioned a new method of financing those companies.

Pioneering Venture Capital Firms

In 1946, the members of some wealthy families who had been investing sporadically in interesting start-up companies formally organized their own venture capital firms. By expanding the scope of their activities, firms such as J.H. Whitney & Co., Rockefeller Brothers and Company and Payson & Trask became prominent participants in that nascent industry. However, they invested only their own money and did not attempt to raise funds from non-affiliated individuals or institutions.

The organization generally acknowledged to be the nation's first professional venture capital association was the brainchild of a group of prominent Bostonians. In June 1946, the key drivers of American Research and Development (ARD) were Karl Compton (president of the Massachusetts Institute of Technology), Georges Doriot (professor at the Harvard Business School) and Ralph Flanders (president of the Federal Reserve Bank of Boston). Each had been studying the difficulties that small companies had long been facing in their search for capital. They were joined by other community leaders who were also interested in creating a new type of organization to help finance emerging companies, especially in Massachusetts.

ARD's founders hoped to raise the money to invest in such firms from wealthy individuals, investment companies, other financial institutions, corporations and university endowment funds. Before embarking on that broad-based fund-raising effort, however, they had to persuade state legislatures and corporate and university oversight boards to alter their fiduciary rules and guidelines to allow them to place a portion of their assets in a fund that would invest solely in risky start-ups.

Doriot, Flanders and their associates intended to invest largely in regionally-based companies that were commercializing new technologies. Based on their experiences and observations, they also recognized the need for a group of skilled and experienced managers to oversee the operations of the fledgling companies their firm would help finance. Indeed, they suspected that finding the talent to transform any particular idea into a profitable, on-going business would be even more challenging than finding the money to get that effort off the ground.

Their concept did not meet with an overwhelming response; by February 1947, ARD had raised $3.5 million, just barely over its desired minimum and well below its target of $5 million. As they began investing those funds, the company's founders codified a set of guidelines that became the *de facto* parameters for investing for future venture capitalists. Generally, they sought companies developing a product that had adequate patent protection, legitimate commercial potential and the prospects for attractive profitability. Doriot also noted the firm's concept of investing in what he termed "noble" enterprises.

As if to emphasize that notion, ARD made its first investment in the High Voltage Engineering Company, a company founded by several MIT professors to develop X-ray technology to treat cancer. ARD raised another $1.7 million in 1949 and was the largest of a handful of venture organizations *Barron's* profiled that year. In 1951, it raised $2.3 million and became

a publicly-held closed-end investment fund subject to SEC regulation under the Investment Company Act of 1940.

In his letters to shareholders throughout the 1950s, ARD President Doriot explained that the company was organized not just to provide financial support to young firms, but also to provide guidance to those firms' entrepreneurial founders/managers. He noted the risky nature of the investments the firm was making and the low probability of success that should be assumed for each of them.

ARD evaluated more than 3,200 projects during its first 10 years, but funded only 2% of them. It invested heavily, but not exclusively, in high-tech, early-stage companies located in New England. ARD had one spectacular success (Digital Equipment Corporation) and generated returns for its shareholders that were competitive with, but not overwhelmingly superior to, other investment categories.

As the years passed, it became apparent that this venture capital fund's status as an SEC-regulated, publicly-held, closed-end investment company was hampering its results.

- ARD had to generate dividends and management fees from its portfolio companies in order to pay dividends to its shareholders; thus, even though it seemed unwise, its portfolio companies were forced to divert some of their financial resources to this purpose.
- Neither the fund nor its managers were permitted to own common shares or stock options in the portfolio companies; thus, ARD was not able to provide its key employees with compensation that was commensurate with the improvements in valuation they helped its portfolio companies achieve.

Key executives began leaving the firm as early as 1951. By 1970, several former employees, as well as many former Harvard students of Professor Doriot, were managing other venture capital firms that found the limited partnership organizational model more suitable for such an enterprise.

A New Law Spurs the Industry

While ARD existed until 1972, it only dominated the venture capital industry until 1958. In that year, Congress authorized the creation of Small Business Investment Corporations (SBICs) to boost the nation's investment in emerging companies. A licensed SBIC with at least $150,000 to invest could borrow another $300,000 from the government's Small Business Administration (SBA), and then invest those funds in accordance with certain guidelines and restrictions. During the program's first five years, the SBA granted almost 700 licenses; those investment firms managed close to $500 million in capital, including $350 million raised by publicly-owned SBICs. While they helped provide financing to scores of small businesses, these new organizations had their own set of problems.

- Most SBICs were quite small and were unable to provide follow-on rounds of money to their portfolio companies. Indeed, doing so was problematic, since they were limited to owning no more than 20% of any individual firm.
- Many invested only in firms that had positive cash flows, not in start-ups; others provided only debt financing, not equity capital, since they needed to generate at least some income to pay off their own SBA loans.
- Their small size and limited operating budgets made it difficult for most SBICs to hire experienced operating managers to help monitor and guide their portfolio companies. Other problems stemmed from the companies' status as a government bureaucracy that had been created by a political organization. They suffered under the weight of bureaucratic rules and regulations that ignored the reality of the marketplace.
- Many participants suffered from the activities of quick-buck artists and ineffectual supervisors. And the decisions of their inexperienced managers were often accentuated by shifting political considerations.

The SBIC program was not perfect, but it played an important role in helping cement the position of venture capital as a permanent part of America's financial landscape. And it did so at a time when investment managers and finance industry executives were just beginning to experiment with the limited partnership organizational model.

Emergence of Limited Partnerships and Corporate Venture Funds

While the source of the limited partnership idea is uncertain, the beginnings of its executions are well-known. In 1959, William H. Draper Jr., H. Rowan Gaither Jr. and Frederick L. Anderson became the general partners in the eponymous firm Draper, Gaither, and Anderson (DGA). Each was an experienced businessman and investor, and each appreciated both the opportunities in venture capital and the limitations of the business models chosen by the small number of existing venture capital firms. They raised $6 million from individuals and institutions who became DGA's limited partners.

Unlike ARD, SBICs and various family funds, DGA would have a limited life of five years. The general partners would receive modest salaries as management fees. The proceeds from the successful sale of portfolio companies would first go towards returning the limited partners' investments. Any additional profits would be shared by the general partners and limited partners on a 40%/60% basis. Like many pioneering firms in other industries, this one was unable to recover from the untimely death of Gaither and other internal difficulties. After achieving modest results, DGA was liquidated in 1967.

Other budding venture capitalists saw the advantages of DGA's basic structure. Between 1960 and 1969, a variety of entrepreneurs formed the venture capital limited partnerships that helped finance dozens of well-known firms in biotechnology, telecommunications and technology. This listing is far from complete, but it does spotlight some of the largest and most active venture capital firms (and their founders) that were established in that period.

1961 Davis and Rock
Arthur Rock, Tommy Davis

1962 Draper and Johnson
William H. Draper III,
Pitch Johnson

1964 Sutter Hill Ventures
William H. Draper III, Paul Wythes

1965 Greylock
William Elfers, James Morgan

1969 Mayfield Fund
Tommy Davis, Wally Davis

These funds and many others typically raised between $3 and $10 million; most

of their money came from wealthy individuals and units of large banks and other financial institutions.

In 1969, two funds broke new ground by tapping new sources of funds and raising much more money from them. Edward F. Heizer had spent the past seven years managing a portfolio of venture-like private placement investments for Allstate Insurance Company. His investments in firms such as Control Data, Memorex and Teledyne generated substantial profits for Allstate when those portfolio companies went public. As had been the case at ARD, however, Allstate's compensation system prevented Heizer and his team from sharing in those investment returns. He left the firm to establish Heizer Corporation and used his strong track record to exceed his $50 million fundraising goal by $31 million.

The fund was organized not as a limited partnership, but as a business development corporation. Most investors were institutions such as insurance companies, commercial banks, endowment funds and pension funds. Their trustees were comfortable making long-term commitments to this private pool of money that employed experienced investment professionals to shepherd their funds. The company's results were very good; it harvested large profits from investments in a variety of firms, including Commodore Corporation, Federal Express and Southwest Airlines. The company went public in 1981. As other corporate venture funds had discovered, however, its status as a tax-paying corporation became problematic; this unusually-structured venture firm was liquidated in 1985.

New Court Private Equity Fund was another corporate venture fund that raised an extraordinary amount of money. It was established in 1969 as a subsidiary of New Court Securities, the US investment vehicle of the Rothschild family. New Court raised $51.5 million, mostly from the pension funds of large American corporations. It operated initially as a corporation, but reorganized as a limited partnership in 1974. Like Heizer, New Court posted a strong record of performance, based on the eventual sale of interests in successful firms such as Amgen, Federal Express and Tandem Computer. Founding partners Charles Lea and John Birklelund left the firm in 1981 after the Rothschild family took control of all its US business units.

Venture Capital Comes of Age

Between 1969 and 1975, more than two dozen additional venture capital limited partnerships were founded. Gradually, most sets of founding general partners refined the industry's operating model. They established a 7–10 year lifespan for the typical fund. Near the end of that lifespan, they focused more on liquidations (and the return of capital to their limited partners) than on making new investments. Most established second (and third and fourth, etc.) versions of their original investment funds, raising new capital for each separate entity.

Thus, the venture capital firms established themselves as permanent investment organizations with multiple pools of money under management. They also attracted experienced investment managers, including many former entrepreneurs who had started their careers as operating executives, then transformed themselves into fund managers. The entire industry acquired an air of professionalism that had long characterized other segments of the financial management industry. It achieved another type of milestone with the formation in 1973 of the National Venture Capital Association (NVCA), a public policy advocate for the industry.

Unfortunately, the environment for investing in the early 1970s was not very favorable. A recession and a weak stock market made it more difficult for funds to sell their portfolio companies, either in an Initial Public Offering (IPO) or to a strategic corporate investor. Many venture funds purposely limited their investments not to new start-ups, but to already established companies seeking capital for growth.

By 1977, overall economic conditions had improved, but investing in start-ups was still lagging. Throughout 1978, members of the SBA joined prominent venture capitalists in urging changes in the 1974 Employee Retirement Income Security Act (ERISA), a landmark bill that promulgated new rules regarding corporate pension funds' investing practices. Specifically, they recommended amending that law to permit such funds to invest in the securities of new companies, as well as the venture capital funds that helped finance them.

The adoption of this recommendation unleashed a new round of investing in both IPOs and venture capital funds. In the first six months of 1979, ERISA-regulated pension funds invested $50 million in venture capital funds, compared to investments averaging less than $5 million per year in the prior three years. In 1980, the Small Business Investment Incentive Act further aided the flow of money to venture capital funds by exempting them from the Investment Advisers Act of 1940. At the same time, Congress cut the maximum capital gains tax to a historically-low level of 20%. Commitments to venture capital partnerships surged to more than $1.2 billion in 1982 and ranged from $1.7 billion to $3.1 billion per year over the next five years. The number of new partnerships and the funds they raised from investors also surged into the mid- and late-1980s.

The venture capital industry expanded and contracted several times during the subsequent three decades. For the most part, its fortunes followed the general economic trends that influenced other segments of the broader capital markets industry. Its continual evolution is an interesting story. However, it is apparent that by the end of the 1980s, the industry had taken on the organizational and operational look that it retains today. $

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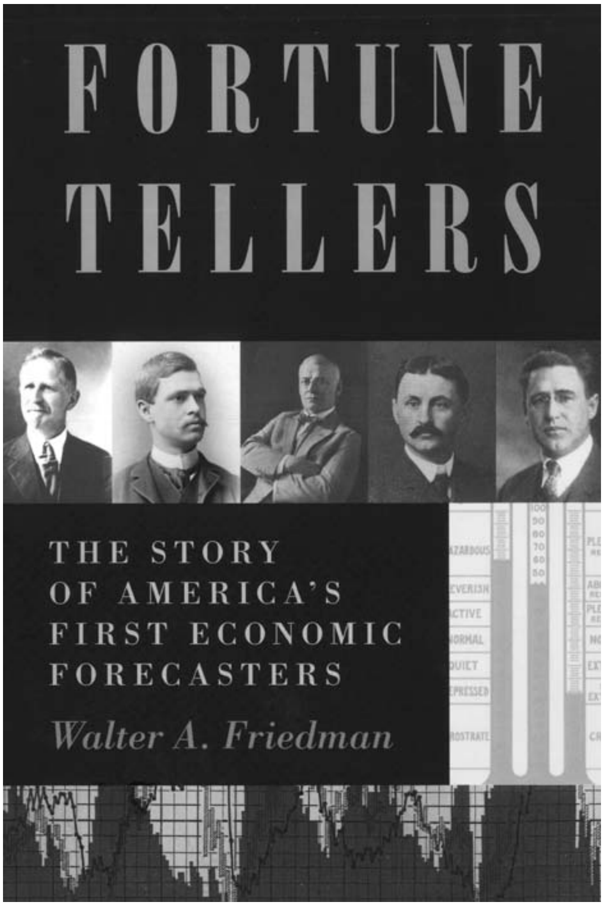
Fortune Tellers: The Story of America's First Economic Forecasters



By Walter A. Friedman,
Princeton University Press, 2013
288 pages with illustrations,
notes and index
$29.95

Forecasting the economy is an absorbing national activity. Questions about the future trends of prices, productivity, jobs, trade and money are all rooted in our wish to find certainty in life and belief that science will illuminate rationality.

Fortune Tellers blends fascinating biography and amply-cited history to relate how modern economic forecasting emerged in the early 20th century. It examines the lives and work of seven visionaries who studied the economy and made predictions based on their views of how American capitalism works.

These early forecasters drew on advances in meteorology, quantitative business techniques, information gathering and economic theory. For example, the term "barometer," commonly applied to early forecasting indicators, came from meteorology.

Roger W. Babson believed the economy had an internal logic and could be predicted by systematic study focusing on recurrent patterns. The Babsonchart reflected his long-standing interest in Newton's law of thermodynamics that for every action there is an equal and opposite reaction. Therefore, a short economic expansion would be followed by an equal contraction.

Yale professor Irving Fisher believed that prices, credit and interest rates were keys to predicting the economy, and their workings were best understood with mathematical models searching for causes.

In John Moody's view, business leaders and large firms were the main actors in the economy, and he focused on their expectations. Moody's Investors Service compiled popular manuals of corporate data and later rated the quality of securities, itself a form of forecasting.

Harvard economics professor Charles J. Bullock and statistician Warren M. Persons set up the Harvard Economic Service. They dissected empirical data, formulated index numbers and charted the trends of speculation (A), business (B) and money (C) on a single chart, called the ABC chart. They did not look for historical patterns, but rather the rhythms of the economy.

Of these forecasters, the Harvard Economic Service achieved the most success in establishing an international, albeit short-lived, presence.

These services aggressively distributed their predictions in publications and presentations to firms, brokers and investors. The visual art of creating innovative colorful charts was born from these presentations.

These highly-competitive businessmen disparaged each other's work and were often maligned by others. Profitability was tenuous. Babson left a $60 million estate. Fisher lost his family's wealth. By the mid-1930s, most had left the public stage.

The public good became part of economic forecasting. Wesley C. Mitchell and Herbert Hoover studied historical trends and a mass of data to form a reasoned predictive judgment. They were committed to using the National Bureau of Economic Research (NBER) and the federal Department of Commerce to study business cycles and provide useful opinions for the purpose of maintaining an even-keeled productive economy.

The early forecasters raised the stature of economic forecasting and embedded it in private business and public policy. They made economic forecasting a professional field, showed that statistical studies could yield useful insights and created a market for economic analysis.

Fortune Tellers is an engaging account of the beginnings of the vibrant industry of American economic forecasting. **$**

George A. Schade, Jr., CMT writes on other aspects of forecasters and sages.

HOW MUCH DO YOU KNOW ABOUT FINANCIAL HISTORY?

TRIVIA QUIZ

By Bob Shabazian

1. Following the War of 1812, who proposed a national economic plan called "The American System" to protect farmers and manufacturers from foreign competition?
2. During the Civil War, what was Confederate paper currency called?
3. What 19th century magnate believed that "the man who dies rich dies disgraced?"
4. What legislation in the 19th century discontinued coinage of the silver dollar?
5. What was paper money issued by the US government during the Civil War called?
6. Who is Janet Yellen?
7. What two airlines merged within the last year to form the world's largest airline?
8. The federal minimum wage is $7.75. How many states have a higher minimum wage than the federal rate?
9. What well-known company last year announced it no longer will issue its colorful and playful stock certificates?
10. Who was the first governor of the Federal Reserve Bank of New York?

1. Henry Clay in a speech before the Senate in 1832 **2.** Greybacks **3.** Andrew Carnegie **4.** The Coinage Act of 1873 **5.** Greenbacks **6.** The first woman to chair the Federal Reserve System **7.** American Airlines and US Airways **8.** 21 **9.** Walt Disney Co. **10.** Benjamin Strong Jr.

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